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1992 annual report

Ontario

Office of the Provincial Auditor

93-02259/

THE HONOURABLE
DAVID WARNER, M.P.P.

Speaker of the Legislative Assembly of Ontario

Dear Mr. Warner:

In my capacity to act in the place of the Provincial Auditor, I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12(1) of the *Audit Act*.

J. F. Otterman

Jim F. Otterman, F.C.A.,
Assistant Provincial Auditor.

December, 1992.

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CHAPTER ONE:

Introduction

1

Twenty-four provincial programs and activities were audited in the year ended August 31, 1992. This report to the Legislative Assembly contains the most significant extracts of 20 of those reports.

THE AUDITING AND REPORTING PROCESS

Because of the size and complexity of the Province's operations and administration, it is impossible to audit each program every year. Instead, the Office conducts selected audits in a cycle, so that all major programs are considered for review every five years. The contents of this Annual Report were selected and reviewed by teams of Office staff consisting of auditors, audit Branch managers and directors, Communications staff, and senior management. The criteria for selecting findings for this report were financial impact, significance to the Legislature, public sensitivity or safety, and adherence to good management practices (economy, efficiency, and effectiveness measures).

Before beginning an audit, Office staff meet with representatives of the auditees to discuss the focus of the audit in general terms. During the audit, Office staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally, and discussed with the auditee. The final audit report, incorporating any necessary changes, is submitted to the auditee, and the most senior administrator is invited to respond in writing. Those responses are included in this *Annual Report*. As can be noted in the auditee's responses, action has already been taken on many of our findings. The Office is pleased to acknowledge the active co-operation of the staff of audited ministries and agencies throughout this year's process.

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of examinations.

Prior to the tabling of the Report, separate and simultaneous lockups are arranged for members of the Assembly and their research staff; representatives of the media; and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor and senior audit management are available to answer the media's questions.

Each year, the Standing Committee on Public Accounts reviews the Provincial Auditor's Annual Report and calls upon representatives of the audited ministries or agencies to discuss selected sections. These meetings are normally open to the public.

SUMMARY OF AUDIT CONCLUSIONS

The following list summarizes the overall conclusions for the 20 audit reports in this publication. A more complete sense of the circumstances of each audit—and the auditee's follow up—can be obtained by reading the relevant sections in Chapters Two and Three.

Cross-Ministry Audit of Purchasing

Policies and procedures for purchasing supplies and equipment were generally followed (Section 2.01).

Government-wide Audit of Information Technology Security

Compliance with a Management Board directive on the security of confidential computerized information was less than satisfactory (Section 2.02).

Market Revenue Program (Agriculture and Food)

The verification procedures of a program to protect farmers from low market prices were satisfactory (Section 3.01).

Citizenship Support Program (Citizenship)

Controls over the processing and payment of Citizenship grants were less than satisfactory (Section 3.02).

Family Benefits Assistance (Community and Social Services)

Administration of a program providing long-term financial assistance to an escalating caseload of sole support parents, and disabled and unemployed people, was less than satisfactory (Section 3.03).

Elevating Devices (Consumer and Commercial Relations)

Inspection of elevating devices was inadequate to ensure compliance with safety standards (Section 3.04).

Real Property Registration (Consumer and Commercial Relations)

The process for registering real property ownership was satisfactory (Section 3.05).

Surface Water Quality (Environment)

Progress has been slow on initiatives to reduce toxic discharges into sewers and waterways, to control urban and agricultural run-off, and to clean up certain polluted areas of the Great Lakes (Section 3.06).

Corporate Payroll System (Government Services)

The business case did not sufficiently demonstrate that the planned payroll system would be the most workable and cost-effective choice from among existing and alternative solutions. Data and software were not adequately secured from unauthorized access (Section 3.07).

Queen Street Mental Health Centre (Health)

Policies and procedures for in-patient care were generally being followed, although we were unable to conclude whether the Centre complied with the *Mental Health Act* regarding the rights of patients to be fully informed about their treatment (Section 3.08).

Community Mental Health (Health)

Controls over funding to community mental health programs were less than satisfactory, and the monitoring of the care and services provided by those programs was also less than satisfactory (Section 3.09).

Health Registration System (Health)

To ensure a speedy registration process, health card eligibility verification procedures were deliberately limited. Additionally, controls were inadequate to ensure that registration information was accurate, complete and secure (Section 3.10).

Microcomputer Network (Housing)

There was a lack of appropriate analysis for development of a Ministry microcomputer network (Section 3.11).

Non-Profit Housing (Housing)

Controls to ensure that non-profit housing was built where it was needed, and at a competitive cost, were less than satisfactory. Controls to ensure cost-effective management of completed projects were also less than satisfactory (Section 3.12).

1

Selling Prices, Transportation of Liquor, and Treasury Operations (Liquor Control Board of Ontario)

The procedures used to calculate the selling prices of liquor products were satisfactory, and the controls over the acquisition of freight services were more than satisfactory. Controls over revenues and investments were satisfactory, although we had concerns about foreign currency transactions (Section 3.13).

Timber Stumpage, Hunting and Fishing Licences, and Provincial Park Fees (Natural Resources)

The controls over the collection of timber stumpage charges and provincial park fees were satisfactory. The controls over the collection of revenue from hunting and fishing licences were less than satisfactory (Section 3.14).

Administration of Trusts and Estates (Public Trustee of Ontario)

The Public Trustee's procedures for administering trusts and estates were unsatisfactory (Section 3.15).

Employer Health Tax (Revenue)

While the new Employer Health Tax system was implemented on time and within budget, controls to ensure that the Province was collecting all the tax to which it was entitled were less than satisfactory (Section 3.16).

Property Assessment Operations (Revenue)

Procedures to ensure the completeness and timely delivery of property assessment rolls to municipalities were generally satisfactory. However, the cost effectiveness of the reinspection function was less than satisfactory (Section 3.17).

Highway Maintenance Activities (Transportation)

The level of maintenance to prevent the deterioration of highways and bridges was less than satisfactory. The acquisition and utilization of maintenance equipment and staff were less than satisfactory (Section 3.18).

OTHER INFORMATION IN THIS REPORT

Chapter Four deals with the Public Accounts of the Province, the 1992 deficit, the effect on the deficit of advance payment of expenditures, and the Consolidated Revenue Fund.

Chapter Five provides background information on the Office of the Provincial Auditor, and Chapter Six discusses the Legislature's Standing Committee on Public Accounts.

Supplementary information is provided in six exhibits at the end of this *Annual Report*.

TO CONTACT THE OFFICE OF THE PROVINCIAL AUDITOR

Anyone with concerns about use of resources in the administration and operation of Provincial programs may contact the Office. Information will be treated with confidence, and will be considered for appropriate follow-up action or investigation. Significant findings resulting from such information will be included in subsequent Annual Reports to the Legislature.

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CHAPTER TWO:

Cross-Ministry and Special Audits

CROSS-MINISTRY AUDIT:

Government Purchasing

2.01

For the 1991/92 fiscal year, the Province's expenditures for supplies and equipment totalled approximately $704 million.

Our objective was to assess on a cross-ministry basis whether supplies and equipment (including furniture and automobiles) were purchased in accordance with central agency and ministry policies and procedures.

To achieve our objective, we audited a representative sample of purchases at seven ministries—Attorney General, Government Services, Health, Natural Resources, Solicitor General, Tourism and Recreation, and Transportation. These ministries accounted for approximately 65 per cent of the $704 million in purchases of supplies and equipment.

We also audited the central purchasing activity at the Ministry of Government Services.

CONCLUSION

Policies and procedures for the purchase of supplies and equipment were, in all significant respects, followed.

BACKGROUND

The purchase of supplies and equipment within each ministry is governed by its policies and procedures manual. However, the minimal principles and requirements applicable to all ministries are outlined in Management Board of Cabinet Directives.

Each ministry is responsible for ensuring that its supplies and equipment are acquired competitively from qualified suppliers. Certain purchases must be made only from one of the approved mandatory central common services (i.e., designated ministries which have negotiated standing agreements for specific items with suppliers). Also, ministries must determine the cost-effectiveness of providing internally over purchasing from outside suppliers any goods or services available from approved optional central common services.

COMMENTARY

COMPETITIVE PURCHASING PROCESS

Management Board of Cabinet Directives state that supplies and equipment "must be acquired through a competitive process that ensures the best value for the funds expended to meet specific needs, and promotes fair dealings and equitable relationships with the private sector".

We found that this requirement was generally followed. However, there were some exceptions. For example:

- A Ministry purchased material for two temporary bridges for $2.5 million. We were advised that competitive bids were not obtained because the Ministry felt that only one company could supply the material based on the structural specifications.

Subsequent to the award, another company contacted the Ministry to inquire why they were not requested to bid. Apparently its material met the specifications. We were advised by management that the second company would be considered in any future tendering.

On purchases of this magnitude, the Ministry should thoroughly search all potential suppliers before deciding to proceed without getting competitive bids.

- A Ministry entered into a contract in December 1989 for the purchase of computers during 1990. The contract was extended three times, and was still in force at the time of our audit in May 1992. No attempt was made to obtain periodic competitive bids to determine if the prices were still reasonable.

  The benefit of periodically obtaining competitive bids was demonstrated when a Ministry employee disregarded the contract and independently negotiated a purchase of computer equipment directly from the same company. The price paid was $133,000, which was $52,000 less than if the equipment had been purchased under the contract.

CENTRAL COMMON SERVICES

Management Board of Cabinet Directives require that certain supplies and equipment "must be acquired only from one of the approved mandatory central common services." Also, before going to the private sector, ministries must determine the "cost-effectiveness of acquiring certain supplies and equipment...from the approved optional central common services."

Both the mandatory and optional central services are provided by specific ministries which are assigned these responsibilities. The Ministry designated as the central common service arranges standing agreements with suppliers of the items to be covered by the central common service. During our audit, we reviewed the competitive process followed by the Ministries of Government Services, Health, and Transportation in establishing both the mandatory and optional central common services. We also reviewed whether ministries were using these services.

In general, approved suppliers of central common services were selected using a competitive process. We also noted that purchases by ministries were made from the approved common services where appropriate. However, there were some exceptions. For example:

- The Ministry of Health is the approved mandatory central common service for the provision of drugs and related medical supplies. We noted that some psychiatric hospitals were not complying with the requirement to purchase drugs through the Ministry, and were purchasing drugs and medical supplies directly from drug companies. We were able to identify $1.6 million of these purchases for the 1992 fiscal year. Some of these purchases may have been justifiable in emergency situations, but generally drug purchases should be made from the government pharmacy.

DEFINING PRODUCT REQUIREMENTS

Management Board of Cabinet Directives state that requirements "be defined properly so that potential suppliers will be able to submit valid bids" and that "generic and/or functional terms must be the preferred method used to describe requirements." While ministries generally followed this policy, there were some exceptions:

- For two purchases totalling $187,000 at a Ministry, specific brand names were used in the tender specifications. In both cases, the company whose brand

name was stated won the bid. One was for the purchase of window shades while the other was for the purchase of a motorized lift costing $140,000. For the latter purchase the tender specifications were sent to four companies. Included with the package was the brochure for the product ultimately purchased.

Of the four companies requested to tender, only one submitted a bid. This company was the only Ontario distributor of the brand specified. Two bidders indicated that "agreements with distributor/dealers do not permit us to sell directly." The fourth company did not submit a bid. No bids were invited from other equivalent equipment distributors. We noted that there are other distributors of similar equipment.

2.01

RESPONSE

The Secretary of Management Board of Cabinet responded to our report on September 11, and attached the comments of the five audited ministries from which a response was appropriate—Attorney General, Government Services, Health, Natural Resources and Transportation. The ministry responses indicated the corrective action being taken. The Secretary made the following general comments:

I am pleased to note that policies and procedures for the purchase of supplies and equipment were, in all significant respects, followed. In those instances where improvements were called for, ministries have taken appropriate action.

GOVERNMENT-WIDE AUDIT:

Information Technology Security

In February 1990, Management Board of Cabinet issued Directive 7-3 on Information Technology Security, which applies to all ministries and Schedule I agencies. This Directive outlines mandatory requirements for safeguarding confidential computer information.

Information technology spending by government ministries accounts for almost $500 million annually, or about 6 per cent of total operating costs.

The objective of our audit was to assess whether ministries and Schedule I agencies had effectively complied with Directive 7-3 on *Information Technology Security*.

We worked with ministries and agencies to develop a comprehensive self-assessment questionnaire to assess their compliance with the Directive as at January 1, 1992.

While this audit was essentially a self-assessment, we sampled ministries and agencies randomly to corroborate their representations. Because of this work and our previous audits, we believe the following summary of their representations to be substantially correct.

CONCLUSION AND FINDINGS

Despite some progress on meeting the Directive's requirements, we concluded, on the whole, that compliance with the *Information Technology Security* Directive was less than satisfactory. Full compliance with this Directive is still several years away.

The average ranking by ministries and agencies of their progress in compliance with the Directive on a scale of one to ten (with ten the highest) was less than five. Most ministries estimated the time to fully implement the Directive at nearly 24 months.

From detailed information provided by ministries, we noted that:

- only 11 ministries had an approved Information Technology Strategic Plan as required;
- nearly 50 per cent of ministries reported a lack of skilled staff as the most common reason for poor progress;
- ministries had over 600 computerized applications containing confidential information—the *Freedom of Information and Protection of Privacy Act* applied to 88 per cent of these applications; and
- there was compliance with the Directive on only a third of the most important computerized systems containing confidential information.

BACKGROUND

Under Directive 7-3, ministries and agencies must have the proper controls in place to ensure the confidentiality, integrity and availability of data "created, entered, processed, communicated, transported, disseminated, stored or disposed of through information technology". They also are responsible for promoting and

sustaining an awareness of information technology security requirements.

Management Board called for all ministries and agencies to submit plans for carrying out the Directive. These plans were to be included in all Information Technology Strategic Plans submitted to Management Board after April 1990.

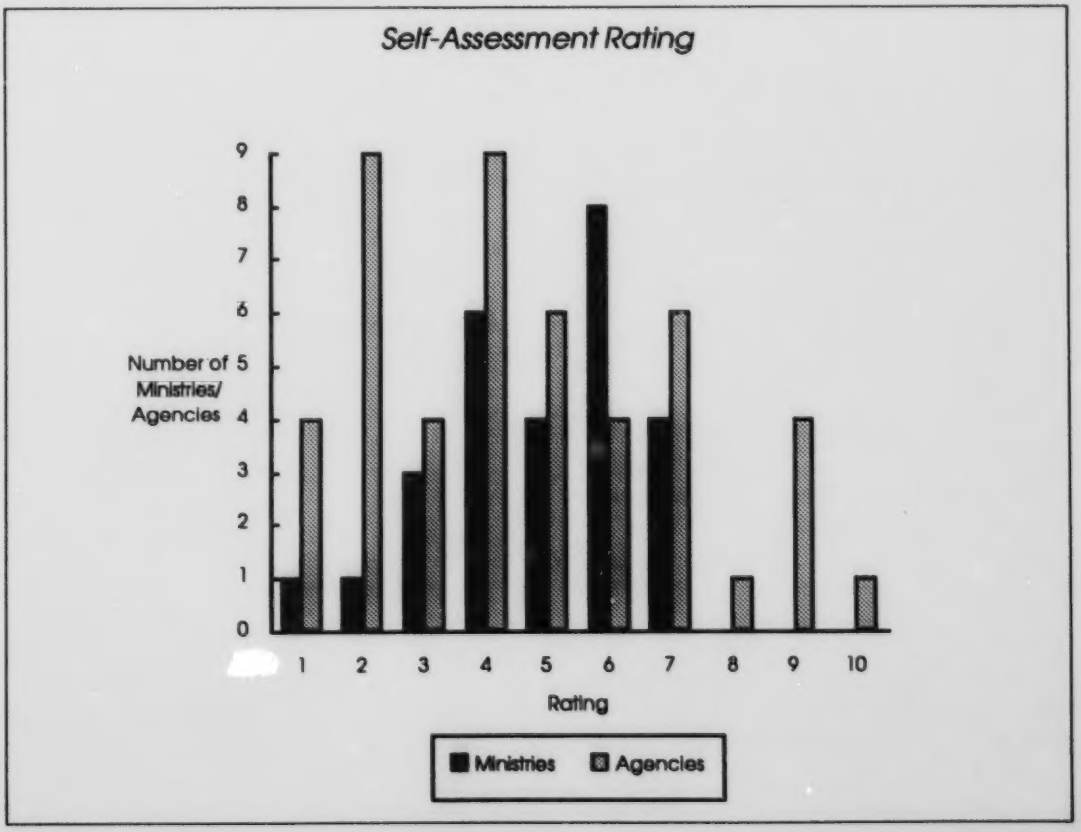
To help ministries and agencies meet the Directive, Management Board Secretariat issued a Guideline in May 1991. As well, they developed a two-day training program and issued a memorandum to all deputy ministers stressing the importance of proper information technology security practices.

In our 1991 *Annual Report*, we expressed concern about computer security in our reports on government-wide audits of microcomputers, minicomputers, and mainframes. These audits prompted this survey and provided assistance in evaluating responses to our survey.

COMMENTARY

RESPONSE RATE

All ministries responded to our survey. Of the 169 Schedule I agencies, only 48 agencies completed the assessment, 49 agencies responded that the Directive was not applicable, and 63 did not respond at all. Based on calls to our Office and our follow-up audit work, we attribute the low response rate of agencies to their lack of knowledge of the Directive. We concluded that the Directive had not been effectively communicated to all Schedule I agencies.



RATING PROGRESS

Ministries and agencies rated the degree to which they met the Directive on a scale of one to ten, with ten being full compliance. The average rating for ministries was 4.9, and for agencies 4.6, as shown below:

We concluded that this was a less than satisfactory rating for carrying out the Directive. The Directive outlined generally accepted security requirements, and made them mandatory. It did not represent a substantial departure from good business practice—or what already should have been in place. Thus, this low self-assessment rating raises serious concerns about the proper protection of information technology and the many government programs it supports.

While ministries and agencies generally did not give themselves a passing grade regarding computer security, the findings of a recent government survey of 10,000 Ontarians indicated that most respondents felt that the government was doing a good job of protecting their confidential information.

TIME REQUIRED FOR IMPLEMENTATION

The Directive came into effect gradually, with each ministry submitting to Management Board a plan for compliance. The plan was to have been part of every ministry's Information Technology Strategic Plan filed after April 1, 1990.

Only 11 ministries had such an approved strategic plan. Several noted that their plans were under development or review. Only 10 of the 48 responding agencies had an approved plan.

There was a strong correlation between the ministries' self-assessment ranking of progress and their estimates of the amount of time required to fully meet the Directive. Most ministries estimated that it would take almost two years to comply. This would mean that full compliance by all ministries would take nearly four years from approval of the Directive. While we acknowledge significant improvement by some Ministries, we believe that this overall pace of progress is less than satisfactory.

As for the responding 48 agencies, there was greater variability between their self-assessment ranking of progress and their estimates of the amount of time required to fully implement the Directive. Several agencies estimated it would take more than three years to complete. Others were more optimistic, both in their rating of progress and in the time required for full compliance. Generally, this may be a function of the much smaller size of the typical agency as opposed to that of the typical ministry.

REASONS FOR NON-IMPLEMENTATION

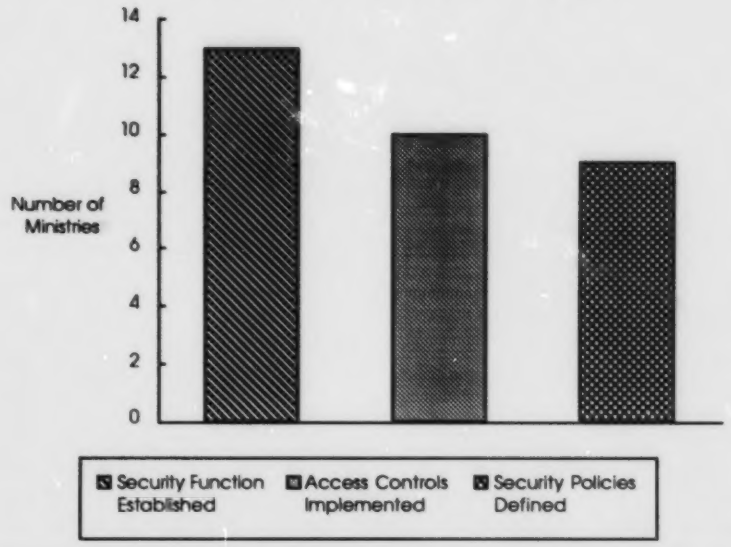
Ministries provided up to three reasons why they had not carried out the Directive. Nearly 50 per cent of the ministries reported the lack of skilled staff as the most common reason, closely followed by other priorities at 45 per cent.

With current budgetary restraints and their effect on hiring and training, the staffing issue may be difficult to resolve in the short term. However, the high response rate for other priorities implies that security as a management issue is not receiving sufficient attention. Resources will only be assigned or reallocated when security becomes a priority for senior management.

REQUIREMENTS MET

Ministries suggested up to three Directive requirements that they had met. Nearly 50 per cent of the ministries reported the creation of the security function as the most common step. The implementation of access controls and the definition of security policies were the next most common requirements met.

2.02



We noted that ministries initially tended to respond to the Directive with organizational changes. This would be consistent with the *Information Technology Security Guideline*. Few ministries noted progress in promoting an awareness among staff of the security requirements of information technology, and 8 of 27 ministries had not made the Directive known throughout their ministries. We believe that effective security starts with people; without people having a sufficient understanding of their responsibilities, no security program can work. The culture of the organization needs to include an appreciation of security requirements. This can only be done by increased training and awareness.

CONFIDENTIAL INFORMATION

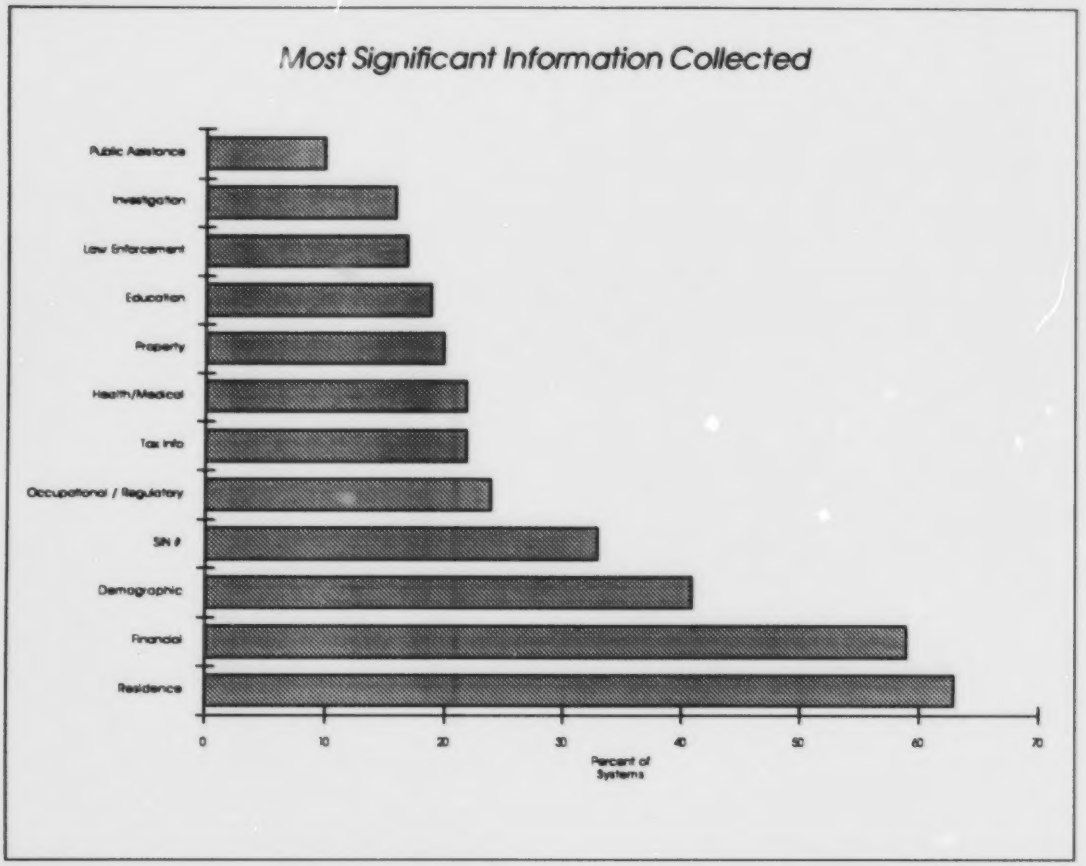
Ministries estimated that they had over 600 computerized applications containing confidential information, of which 88 per cent are covered by the *Freedom of Information and Protection of Privacy Act*. The Act establishes the standards of privacy protection required by law for provincial ministries, agencies and other government bodies. Only a third of the ministries reported, however, that they had inventoried all confidential information in their Ministry.

The 48 responding agencies reported over 450 computerized applications containing confidential information, with over 60 per cent covered by the Act. Only 14 of 48 responding agencies had inventoried all confidential information.

MOST IMPORTANT SYSTEMS

Ministries provided detailed information on their five most important computerized applications containing confidential information. These applications are critical to the mission of the ministry or important in program delivery. They identified some 116 such systems. The chart on the following page shows that these systems contain extensive personal data, ranging from names and social insurance numbers to financial and health information.

Ministries reported that they were in compliance with the Directive on fewer than one third of these systems. The Directive



states: "The extent and cost of security measures are to be commensurate with the likelihood and/or potential impact of a breakdown in information technology security."

Given the importance of these systems, we concluded that ministries gave insufficient priority to protecting these critical systems.

For these important systems, ministries identified budget constraints as the most common reason that security controls were not in place.

CONFIDENTIALITY, INTEGRITY AND AVAILABILITY OF THE MOST IMPORTANT SYSTEMS

The Directive states: "Information technology security is achieved when the following three conditions are met:

- *confidentiality*—controlled access to information as required by legislation;
- *integrity*—accurate, complete, authentic and timely data and data processes;
- *availability*—continuous operation of information systems that enable or support the delivery of services."

Ministries answered questions concerning the confidentiality, integrity and availability for their most important computerized applications containing confidential information, as shown above.

The responses to question #1 suggest that ministries believed that they have adequately protected confidential information in over 90 per cent of their most important systems. We had a far less optimistic opinion, based upon previous audit work.

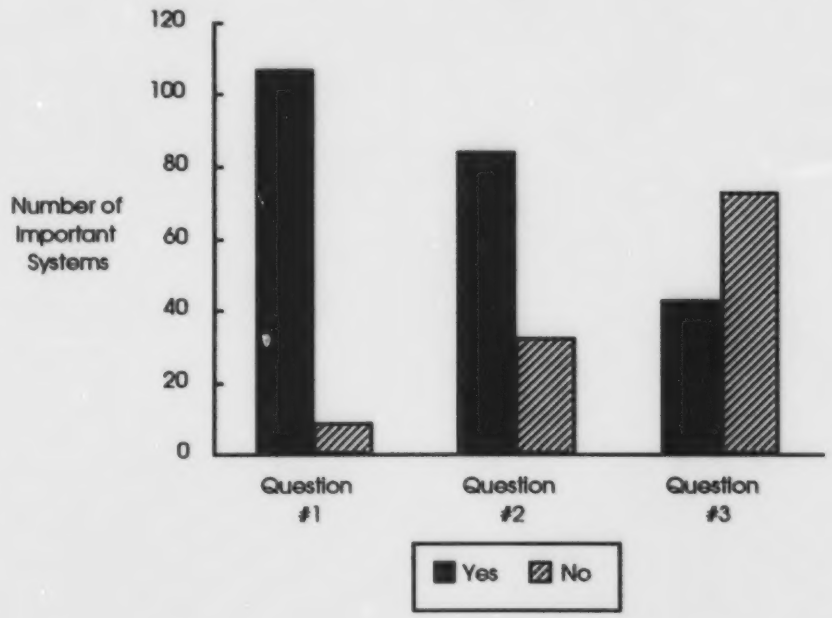
2.02

Confidentiality, Integrity, Availability

#1 "Is access to personal or otherwise confidential information restricted to those who require it to perform their duties?"

#2 "Does only the program manager keep a record of the type of data access each employee and/or position is allowed?"

#3 "Is there a contingency plan in place ready to be implemented in the event of a disaster?"



In several recent audits, we reported significant weaknesses in the protection of confidential information on important systems. The ministries' responses also tended to contradict their responses concerning the identification of confidential information, the frequency of security reviews, and the sharing of data between ministries.

Ministries reported they met information integrity requirements in over 70 per cent of systems, yet they felt that only a little more than one-third of the information systems supporting service delivery met continuous operation requirements.

Given the three conditions for secure information technology, we concluded that there is significant room for improvement in the security of the Ministries' most important systems. Program delivery to the public could be at risk without such improvements.

RESPONSE

The Secretary of Management Board of Cabinet responded to our report on August 24:

We feel that the self-assessment approach you have taken, and your interpretation of the results, are very helpful in assessing the government's progress in this critical area.

We are not surprised, based on our original forecast and given the current constraints faced by the ministries, that some will require more time to fully implement the Directive. We will continue to help ministries fulfil their responsibility for implementing information technology security.

CHAPTER THREE:

Ministry and Crown Agency Audits

MINISTRY OF AGRICULTURE AND FOOD:

Market Revenue Program

3.01

The Market Revenue Program protects farmers against reduced income due to low market prices. For the 1991 crop year, payments totalled about $140 million as of March 31, 1992 which represents about 60 per cent of the expected payout for that crop year.

One of our audit objectives was to assess whether the Market Revenue Program had satisfactory controls to verify the accuracy of information provided by farmers on crop acreage and yields.

Our audit was conducted both at the Ministry of Agriculture and Food's head office and three of the seven area offices. We obtained information from other area offices by means of a questionnaire. We also interviewed officials with the federal government and accompanied Ministry personnel on inspection visits to farmers.

CONCLUSIONS AND FINDINGS

VERIFICATION PROCEDURES

Procedures to audit the accuracy of information reported by farmers on crop acreage were generally satisfactory. However, strengthening the documentation of procedures used to substantiate farmers' yields would have improved the overall process.

- High risk audits of producers were proving to be more cost-effective than the random audits currently being done. For instance, high risk audits detected a number of instances of farmers claiming more acres than were actually planted.
- Procedures used by the Ministry to substantiate farmers' crop yields were not well documented.

OTHER MATTER

- Early indications suggested that the program may be encouraging farmers to produce crops which have a high support price rather than those crops with a relatively high market price.

BACKGROUND

In 1991 the federal government established a national tripartite Gross Revenue Insurance Plan (GRIP) with the provinces for certain crops. GRIP includes components for both yield and price insurance. The provinces have the option of providing these two types of insurance as a single, integrated program or as two separate programs. Ontario has opted for two separate programs, the Crop Insurance Program which provides a yield insurance and the Market Revenue Program (MRP) which provides price insurance. Prior to the establishment of the MRP, price support to farmers for grain crops was provided by the Farm Income Stabilization Program.

Insurance premiums for MRP are shared between the federal government, the Province, and the farmers. For the 1991 crop year, premiums totalled about $156.7 million, of which the federal government paid 52 per cent, the farmers paid 25 per cent, and the Province paid 23 per cent.

The MRP covers 80 per cent of a farmer's average farm yield. The MRP support price, determined on a per crop basis, is 80 per cent of the 15-year average Ontario price for that crop. A claim payment will be made to the farmer if the current Ontario market price for the crop is less than the support price.

Approximately 27,000 farmers were enrolled in MRP in 1991. Not all crops are eligible for coverage under MRP. However, farmers who do enrol in the program must enrol all crops that are eligible for coverage.

COMMENTARY

VERIFICATION PROCEDURES

AUDITS OF FARMERS

We reviewed the system used by the Ministry to verify the acreage information provided by farmers. The Ministry system included the conduct of both random and high risk audits. In 1991 random audits were selected by head office and conducted by field staff. High risk audits were selected by the area managers and usually carried out by field staff. In selecting farmers for high risk audits, area managers took into consideration factors such as field staff input, past experience with the particular farmer and whether the farmer was a new client.

For the 1991 crop year, about 560 random audits were conducted, primarily to determine whether the actual acreage planted for that crop agreed with that reported by the farmer. In total, about 260 acres were detected where the actual acreage was less than that indicated by the farmer in the final acreage report. These results provided a high of level of assurance that the acreages reported by the farmers were actually planted.

For the 1991 crop year, approximately 375 high risk audits were carried out by six of the seven area offices. We selected and reviewed about 90 completed high risk audits. Our review found 16 instances where the acres reported in the farmer's final acreage report exceeded the actual acres planted. Based on the acreage tested, approximately 20 per cent of the acres reported in the farmer's final acreage report in these 16 instances exceeded the actual acres planted.

For instance:

- one audited farmer had overstated by 77 acres the acreage planted by including a neighbouring farm as part of the final acreage report. The farmer's enrolment in the program was subsequently cancelled; and
- another case involved two family members who each submitted a farm acreage report for 70 acres on the same farm property. This was detected during a high risk audit. Subsequently, the farmers' enrolment in the program was cancelled.

High risk audits were more effective in uncovering problems than random audits. This was supported by interviews with Ministry personnel and questionnaire results from area managers who generally felt that random audits were not as effective as high risk audits. In addition, based on 1991 audits, cost savings could have been realized by increasing the proportion of high risk audits to random audits.

We acknowledged that random audits act as a deterrent for farmers who overstate their acreage. However, we fully supported the Ministry in its efforts to carry out a greater proportion of high risk audits.

YIELD REPORTS

Under the MRP, higher crop yields result in larger payouts to farmers. Accordingly, we reviewed the process used by Ministry personnel to substantiate farmers' yields when preparing the yield reports.

Typically, after the crops were harvested, a Ministry representative visited the farmer and together they prepared the yield report. In most instances, some or most of the harvest would have been disposed of through sales or consumption; therefore, Ministry personnel should have relied on other supporting evidence to substantiate yields claimed by the farmer.

3.01

Our review indicated that although farmers' crop yields were signed off by Ministry personnel as having been verified, there was no documented evidence accompanying the yield report indicating what steps were carried out to calculate or substantiate the reported yield.

In our discussions with Ministry officials, we were informed that although no documents or evidence were attached, staff generally examined documents such as sales receipts and weight tickets, and measured any stored or carry over crops from prior years. This practice was confirmed by questionnaire results from area managers. We also understood that if the Ministry found that the farmer's yield was not comparable with the county average for that crop, then a more thorough review would have been done.

Substantiating yields is important in ensuring that farmers are not inflating their production or crop yields so as to receive larger payments. During the 1991 crop year, the Ministry noted instances where farmers had inflated their crop yields. For example, in checking a farmer's 1991 crop yield, Ministry staff discovered that the farmer had included a sales invoice from the previous year's crop to inflate the current year's yield.

We suggested that the Ministry assess the practicality of recording the procedures carried out when substantiating farmers' yields, and where applicable, note records of sales and weight ticket numbers. Such evidence would have provided a trail or record of the work done and help the Ministry in carrying out any further testing of farmers' yields.

OTHER MATTER

PRODUCTION LEVELS

Under the MRP, payments are made to farmers when the annual market price of an eligible crop falls below the insured support price. The Ministry has stated that the program was not designed to provide direct incentives for farmers to either increase or decrease the acreage planted of the various eligible crops.

In essence, the Ministry does not want to encourage farmers to determine which crops to plant based on which crops offer the largest spread between the support price and the cost of production. Recognizing that the MRP is in its early stages, we nevertheless assessed whether there was any evidence that farmers were growing crops based primarily on this as opposed to growing crops with relatively high market prices.

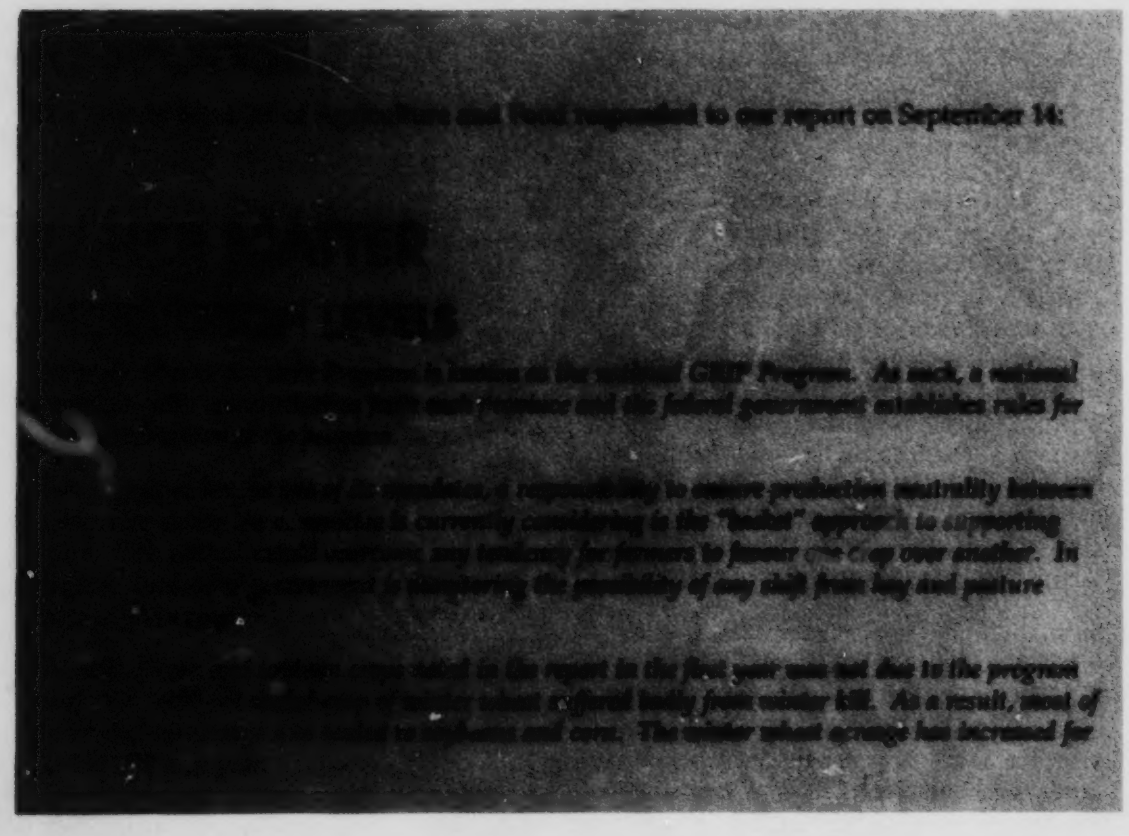
We analyzed the change in average acreage planted from 1988 to 1990 to the actual acreage planted in 1991 for corn and soybeans, as together these two crops account for 75 per cent of the total acreage insured by the MRP. Our analysis indicated that even though the market prices for corn and soybeans both decreased by about 12 per cent in that period, the acreage planted for both crops in 1991 increased by 5 and 12 per cent respectively.

With respect to soybeans, we noted that the direct cost of growing soybeans is $100 per tonne as compared to the support price of $310 per tonne. We also noted that acres rented for growing soybeans increased substantially from 4,100 acres in 1988 to over 35,700 in 1991 (1989 and 1990 figures not available). According to a Ministry publication, some switching of crops from vegetables in 1990 to soybeans in 1991 also took place.

In their responses to our questionnaire, both head office personnel and area managers acknowledged that relatively high support prices for certain crops could motivate farmers to increase production of those crops.

We recognized that other factors such as crop rotation, market demand and weather conditions could also affect farmers' decisions to shift production from one crop to another. However, our analysis, while not conclusive, suggested that the program might have been encouraging farmers to make planting decisions based at least partly on expected subsidies.

Although the MRP is in its early stages, we recommended that the Ministry monitor the possible effects of this program on farmers' planting decisions and communicate any concerns to the federal government.



MINISTRY OF CITIZENSHIP:

Citizenship Support Program

3.02

The Citizenship Support Program of the Ministry of Citizenship is responsible for providing capital, project and operational funding for local initiatives to promote full, equal and responsible citizenship by all residents of Ontario. Most of the initiatives funded are designed to assist immigrants, ethnocultural minorities and aboriginal peoples.

For the 1991/92 fiscal year, program expenditures totalled approximately $41 million, $28.3 million of which consisted of transfer payments.

One of our audit objectives was to assess whether grants were adequately controlled.

Our audit focused on administrative procedures and a sample of grant files from five different grant programs which together accounted for approximately 90 per cent of all grants provided. We also interviewed key personnel at both field and head office locations. The audit covered primarily fiscal years 1989/90, 1990/91 and 1991/92 where appropriate.

CONCLUSION AND FINDINGS

CONTROLS OVER GRANTS

Controls over the processing of grants and payments to recipients were less than satisfactory.

- There was no attempt to rank applications for project or capital grants to ensure that only the most promising projects are funded over the course of the year.
- The Ministry often prepaid native grants in excess of the amounts required by the guidelines, usually late in the fiscal year. For example, in the 1989/90 and 1990/91 fiscal years, the Ministry prepaid $1.5 million in excess of the amounts required out of a sample of grants totalling $8.4 million.
- We were generally unable to determine whether grant recipients acquired goods and services competitively.
- There was virtually no reporting or monitoring of compliance with capital grant terms and conditions or of the benefits received.

Multiculturalism and Race Relations Fund

- Responsibility for projects between the Ministry of Citizenship as funder and the delivery Ministries was not clearly defined. As a result, implementation of individual projects, including the results achieved, was not monitored by the Ministry and there was no annual monitoring or reporting on the overall effectiveness of the fund.
- The project selection committee did not maintain documentation supporting the ranking or approval of projects.
- Payments were often made based on insufficient information. In addition, required mid-year and year-end financial reports were not received from the delivery ministries, hindering the administration of the fund.

OTHER MATTER

- In our view, $129,000 was spent for a purpose other than that for which it was appropriated.

BACKGROUND

For 1991/92, the Ministry made transfer payments under nine distinct programs. The following is a description of the five main programs which were the focus of our audit.

The Community Facilities Improvement Program provides funding for the planning, purchase, renovation, adaptation or improvement of existing facilities, or the development and construction of new facilities that are used by organizations that further the Ministry's objectives. During 1991/92, there were 82 such grants totalling $9.2 million.

The Ministry issued 141 **Community Project Grants** totalling $2.6 million in 1991/92. These grants help community-based, non-profit organizations promote citizenship by providing funding for short-term, one-time and non-capital projects.

Projects eligible for funding in the **Grants for Special Projects - Native Peoples** are designed to encourage native self-reliance and community participation through preservation of native heritage, promotion of leadership skills, and facilitation of socioeconomic development and access to government services. In addition, under the government's anti-recession program, one-time grants were provided for on-the-job management and training projects. During 1991/92, the Ministry issued 258 grants under this program totalling $4.1 million.

The Ontario Settlement and Integration Program provides annual operational funding to non-profit community-based organizations that provide settlement and integration services primarily for immigrants and refugees. The Ministry issued 126 OSIP grants totalling $5.5 million during 1991/92.

The Multicultural and Race Relations Fund provides financial assistance to other ministries for projects that support the government's multiculturalism and race relations strategy. During 1991/92, the Ministry funded 78 grants totalling $4.1 million.

COMMENTARY

CONTROLS OVER GRANTS

PROJECT PRIORITIES

In 1991/92 and prior years, applications for project and capital grants were received throughout the year. As a result, applications were considered on a "first come, first served" basis, and there was no attempt to rank them to ensure that only the most promising projects were funded over the course of the year. As a result, projects of less significance could have been funded earlier in the year when only a few applications had been received, while applications for better projects later could be rejected or delayed due to insufficient funds.

We were informed that for 1992/93, applications for project and capital grants will be batched quarterly and ranked by the regional consultants. This will help to ensure that projects are funded based on assessed priorities.

PREPAYMENT OF GRANTS

The grant guidelines for native capital projects usually provide for the recipient to receive 35 per cent of the grant amount on signing the agreement. Payment may be increased to 90 per cent of the grant on

completion of 30 per cent of the work. The final 10 per cent is to be paid on completion of the project.

We found that the Ministry often prepaid grants in excess of these amounts, usually late in the fiscal year. For example, our review of native capital grants totalling $8.4 million in 1989/90 and 1990/91 found that 12 of them totalling $2.8 million were prefunded at the 90 per cent rate rather than the normal 35 per cent. This resulted in the Ministry prepaying $1.5 million in excess of the normal amounts due. We also noted that 11 of the 12 prepayments were approved and paid in the last month of the fiscal year.

3.02

When projects are prefunded at the 90 per cent rate, there is little incentive for the recipients to keep the Ministry informed of the current status of the project. Of the 12 projects prefunded, three were completed in over 27 months. This violated the Ministry's requirement that projects be completed within 18 months of signing the agreement.

Prepaying grants in excess of the amounts required by the guidelines reduces the Ministry's ability to exercise control and take appropriate corrective action should the recipient fail to meet the terms and conditions of the grant. For example:

- In March 1990, the Ministry approved a $232,000 capital grant to build a fire hall. However, instead of prepaying the normal 35 per cent of the grant, the Ministry paid 90 per cent, or approximately $128,000 more than required.

  In March 1991, the recipient requested and received an extension for completion of the project. Six months later the recipient advised the Ministry that the fire hall would not be built since the money was used to complete the construction of an existing administration building.

ACQUISITION PROCEDURES

Agreements between the Ministry and grant recipients require that all goods and services be acquired competitively, subject to a ten per cent pricing allowance for Canadian content.

We reviewed a sample of ten native capital grants totalling $3 million to assess compliance with this requirement. We found that:

- only one project file contained evidence that the project had been competitively tendered;
- seven project files contained no evidence that the project had been tendered; and
- two project files indicated that goods and services were not competitively acquired.

We were advised that competitive acquisition procedures may be waived in order to give the work to firms employing natives. However, there was no evidence in the files that this was the case.

The Ministry of Culture and Communications' Internal Audit Branch had similar concerns in their 1990 audit report on non-native capital projects.

In the absence of competitive acquisition procedures, there is no assurance that the best possible price has been obtained.

PROJECT MONITORING

Guidelines for capital grant programs require recipients to submit post-completion reports between six and twelve months after project completion. These reports consist essentially of an accounting of the actual expenditures incurred relative to the original budget.

As a result, there has been virtually no reporting on the operations of the projects or the actual benefits achieved. This, combined with the fact that Ministry staff did not regularly undertake site visits, provides the Ministry with little assurance

that the grant terms and conditions were complied with, even though they may remain in effect for up to twenty years after project completion. In addition, information on the implementation and effectiveness of past grant projects could be an important factor in assessing future applications.

MULTICULTURALISM AND RACE RELATIONS FUND

The Multiculturalism Fund was established in 1987/88 to serve as an incentive for government-wide multicultural initiatives. Race relation projects became eligible for funding in 1990/91 when the name of the fund was expanded to the Multiculturalism and Race Relations Fund.

In administering the fund, the Ministry's aim is to:

- ensure that as many ministries as possible undertake projects that further the objectives of the Multiculturalism and Race Relations Strategy; and
- influence the initiatives undertaken over time.

Project Accountability

The Deputy Minister of Citizenship annually requests other ministries to submit requests for project funding. These are evaluated by an Interministerial Project Review Committee against the goals of the Multicultural and Race Relations Strategy and priorities established for the year. Subject to Deputy Minister approval, the Ministry then advises successful applicants of the amounts to be funded and administers the funding process during the year.

We found that the accountability relationship between the Ministry of Citizenship as funder and the recipient ministries was not adequately defined. As a result, the Ministry of Citizenship limited its responsibility to project approval and financial administration of the fund.

We were informed that the Ministry of Citizenship does not believe that it has the authority or the responsibility to monitor and evaluate the implementation of the funded projects in recipient ministries. As a result, implementation of individual projects including the results achieved was not monitored by the Ministry, and there is no annual monitoring or reporting on the overall effectiveness or results of the fund.

Fund Administration

Project Selection

Although the Interministerial Project Review Committee met annually to review and recommend projects for Deputy Minister approval, it maintained little documentary evidence to support the project ranking and recommendation process. We were advised by members of the committee that the results of their deliberations were recorded on their individual project listings which were later summarized and recorded on the grant approval form. While this was the case for 1988/89, information to support project selection was not recorded on that document in subsequent years.

Payment Process

Ministry procedures require that journal entries requesting funds be accompanied by appropriate documentation, including either copies of paid invoices or a summary of paid invoices identifying the invoice number, amount, supplier activity undertaken and date the expense was incurred.

However, contrary to these requirements, we found that the Ministry often approved journal entries which transferred funds to recipient ministries based on inadequate support. For example:

- a payment of $99,995 to one ministry was based only on a list of supplier names and amounts paid;

- payments to another project included approximately $46,000 in overhead costs for ministry salary and benefit costs which are not eligible for funding; and
- three payments totalling $400,000 for projects that had not yet started or had deliverables late in 1992.

In addition to requests for funds, recipient ministries are to provide mid-year and year-end financial reports which highlight actual expenditures to date against planned ones. However, compliance with this requirement gradually decreased from approximately 50 per cent in 1988/89 to virtually no compliance in 1991/92.

Since 62 per cent of all 1991/92 fund expenditures were paid in the last three weeks of the year, the lack of mid-year financial reports of expenditures incurred and chargeable to the fund makes it very difficult to plan for the fund's cash flow for the year.

OTHER MATTER

QUESTIONABLE EXPENDITURES

In 1991, Management Board of Cabinet approved the internal reallocation of $115,000 to fund projects for Eastern European Initiatives. Subsequently, as part of its 1991/92 Estimates Submission, the Ministry requested additional funding for these Eastern European Initiatives. The objective of the request was to provide grants to organizations that would assist in the democratization process in Eastern Europe.

Our review of Management Board of Cabinet minutes indicated that no decision was made on this initiative, and consequently no funding was provided for it in the 1991/92 estimates.

However, we found that in March 1992, the Minister approved and paid three grants totalling $129,000 out of Grants for Community Projects for this purpose. As a result, in our view, money was spent for a purpose other than that for which it was appropriated.

RESPONSE

The Deputy Minister of Citizenship responded to our report on September 2:

CONTROLS OVER GRANTS

PREPAYMENT OF GRANTS

There are often significant reasons for the acceleration of the second payments for projects. These include the need to acquire materials for winter road access for remote communities to reduce transportation costs and the need for community groups to make a 90 per cent payment for a property purchase.

Community-based projects are often more difficult to bring to a final application stage because of the use of volunteer help and overloaded staff. Projects identified for funding early in the year may arrive near year end. The fiscal management practice that segregates cash flow and commitments in a program can lead to a commitment of the full budget in one current fiscal year with the cash flow

carried over the next fiscal year so that the budget for future community projects is eroded. This fiscal management practice leads to pressure to collapse first and second payments into one payment.

ACQUISITION PROCEDURES

The primary business of the Native Community Branch is Aboriginal community development. Capital construction projects are a significant means for achieving enhanced community skills in all aspects of construction and project management. The communities will often undergo selection processes within their communities with a view to expanding local business development. Where it is feasible to get tenders (a difficult matter for rural and remote communities) tendering is often done, with evidence remaining on community files.

PROJECT MONITORING

The Community Facilities Improvement Program (CFIP) files which were selected for audit reflected projects which fell under the old CFIP. There was no requirement for regular monitoring. However, since 1991 field staff have been instructed to perform site visits prior to the release of a final payment, especially for large CFIP projects. This goes beyond the stated requirements of the old CFIP program.

It should be noted that the new CFIP Program which was designed in 1989/90 does have a stated requirement for regular monitoring and especially before the release of final payment. Subsequently all CFIP projects under the new criteria must be subject to a site visit once a year for ten years.

MULTICULTURALISM AND RACE RELATIONS FUND

Project Accountability

The Ministry of Citizenship monitored implementation of funded projects through ongoing contact with designated personnel in ministries, and by ensuring that funds were spent on approved projects. This Ministry did not evaluate the results of individual projects, believing this is to be the responsibility of delivery ministries. The Ministry specifically encouraged ministries to undertake evaluations of multiculturalism and race relations projects, and a guidebook to help plan and evaluate initiatives is being prepared. Annual reports were made to the Minister on the use of the Fund.

The Ministry also expects that internal financial and management controls, based on Management Board of Cabinet Directives, will be adhered to within each ministry.

The Multiculturalism Strategy, including the Fund, was reviewed in the spring of 1992. The review included recommendations to enhance effectiveness of the Fund, and the Ministry will be following through with these recommendations.

Fund Administration

Project Selection

The Ministry will ensure that documentation supporting recommendation of projects from the review committee as well as approvals pertaining to in-year proposals is in place.

Payment Process

The financial status of all projects was monitored throughout the year through the journal entry process. Through the Fund, the Ministry reimbursed delivery ministries which had spent their own

fund on approved projects upon receipt of documentation. The Ministry is committed to ensuring that all required documentation is in place prior to payment.

Year-end financial reports from delivery ministries often formed part of the following year's proposal because the call for proposals was sent out in December, towards the end of the fiscal year. Due to a staff vacancy in 1990/91, the Ministry was unable to be rigorous in ensuring that ministries evaluated and/or prepared written reports on their projects. The staffing situation has been remedied, and final reports for last fiscal year are being acquired. In 1991/92, mid-year financial reports were received as part of the constraint exercise on the Fund.

With respect to the examples, please note the following:

3.02

The $46,000 paid for salary and benefit costs went to the Human Resources Secretariat under an exemption obtained from Management Board for a project on monitoring of potential executives.

Payments totalling $400,000 were pre-flowed to ministries for projects that had been approved for transfer payment agencies. The financial uncertainty of the Fund during 1991/92, the consequent delay in approvals, and the subsequent in-year constraint prevented ministries from starting all projects as planned. Management Board Secretariat was aware that transfer payments were made to agencies with spending occurring in the next fiscal year due to the different fiscal years of some transfer payment agencies.

OTHER MATTER

QUESTIONABLE EXPENDITURES

Minutes from Management Board's 1991/92 Estimates meeting indicate that a decision regarding the Ministry of Citizenship's involvement with Eastern European initiatives was deferred.

The Ministry of Citizenship has funded such projects under the Community Projects Grants Program, Special Category, which allows for the approval of a project that results in building bridges of intercultural understanding.

Such projects were approved at a time when immigration from Eastern European countries was very high. The new immigrants' ties with their homeland were still very strong. The support of such projects could result in enhancing the integration and full participation of Ontario's Eastern European immigrant population which is the highest aggregate European group in Ontario. This is consistent with the Ministry's broad mandate of citizenship development. This "special" category also allows for the approval of projects which address matters of a humanitarian nature.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES:

Family Benefits Assistance

The Family Benefits program of the Ministry of Community and Social Services provides financial assistance to persons who are in need of assistance for a prolonged period of time. The program's expenditures for the 1991/92 fiscal year totalled $2.73 billion, of which $980 million was funded by the federal government under the Canada Assistance Plan.

Our audit objective was to assess the Ministry's administration of the Family Benefits program.

Our audit included discussions with Ministry officials and visits to three local offices. During the 1991/92 fiscal year, these three offices had a caseload of approximately 34,000 clients and were responsible for $350 million in Family Benefits payments.

CONCLUSION AND FINDINGS

We concluded that the Ministry's administration of the Family Benefits program was less than satisfactory.

- Based on Ministry staffing standards, the program was understaffed, and required a minimum of 350 more staff.
- Controls to ensure that recipients collect disability pensions to which they are entitled under the Canada Pension Plan were inadequate. We estimated that the Ministry has needlessly paid out $300 million over the past ten years to recipients who could have qualified for such pensions.
- The Ministry's efforts to prevent and detect fraud were insufficient. A consultant's estimate of fraud averaging 3 per cent per year translates into Ministry losses of $70 million to $100 million annually.
- Controls over the recovery, write-off and prevention of overpayments regarding former recipients were inadequate.
- Ministry efforts were insufficient to ensure that sole support parents collect maintenance and child support payments from their spouses.
- Controls to ensure that recipients satisfied the basic eligibility requirements of the Family Benefits legislation were satisfactory.
- Due to a lack of verification of the information used to calculate allowances, an estimated $30 million to $50 million was paid out annually to recipients in excess of their entitlement.
- Updating of client information was unsatisfactory.

BACKGROUND

In the 1991/92 fiscal year, the Ministry spent $5 billion on social assistance, of which $2.73 billion pertained to the Family Benefits program.

The Family Benefits program provides a monthly allowance and benefits, such as prescribed drugs, dental care, eyeglasses and home repairs to eligible persons under

3.03

the provisions of the *Family Benefits Act* and Regulation. As of March 31, 1992, there were 285,000 recipients of allowances and benefits. These recipients supported 335,000 dependent spouses and children. Each recipient received an average monthly allowance of $900.

Half of the recipients were sole support parents and 41 per cent were blind, disabled or "permanently unemployable". The remaining 9 per cent included the elderly, parents of disabled children and participants in vocational rehabilitation training.

The current recession has contributed to a significant increase in the caseload. In the past five years, the Family Benefits caseload has almost doubled.

In addition to trying to cope with the escalating caseload, the Ministry is working on several major changes recommended by the Social Assistance Review Committee. This committee undertook a public review of the province's social assistance system and submitted its report, called *Transitions*, to the Ministry in 1988. One of the Committee's major recommendations suggested merging the *Family Benefits Act* and the *General Welfare Assistance Act* into a single piece of legislation.

In May, 1992 the Advisory Group on New Social Assistance Legislation released *Time for Action*, a blueprint for new legislation.

COMMENTARY

The Ministry administers the Family Benefits program through 13 area and approximately 40 local offices, and employs about 1,400 staff to deliver the program. Approximately 10 per cent of the program's caseload is administered by municipalities.

The front line delivery of the program is performed by the Ministry's 800 Income Maintenance Officers. They take applications, verify information, determine eligibility, periodically update information to ensure ongoing eligibility, and provide information, guidance and direction to clients.

STAFFING

The Ministry's 800 Income Maintenance Officers (caseworkers) administer over 250,000 Family Benefits cases, or on average 320 clients per caseworker. These caseworkers can spend only five hours per year on each case. This is insufficient time for caseworkers to perform their work adequately.

In 1991 the Ministry had 600 caseworkers and received approval to hire an additional 200 staff. The request for the additional staff to Management Board in January 1991 noted that "the effect of the continued increases in workload at the intake and basic administration levels has been to severely reduce the ability of the Ministry to meet program objectives and thus to balance and fulfil its obligations to eligible clients, to the legislation and to the taxpaying public." At the time of the request, the caseload averaged 330 clients per caseworker. The increased staffing has been only marginally helpful as the caseload has continued to increase due to the current recession.

A 1991 Ministry staffing study concluded that service to recipients could be effectively met with a caseload standard of 275 clients per caseworker. The study also observed that for every case above 275, progressively more functions would go undone to a point at which even critical functions would not be performed.

Our work at the three local offices we visited essentially supported the results of the Ministry's staffing study. We found that the administration of the Family Benefits program was satisfactory at one office which had an average caseload of under 275 clients per caseworker. At the other

two offices, where the caseload exceeded the standard, administration of the program was not satisfactory. Caseworkers we interviewed stated that they did not have enough time to adequately perform their duties.

Only 11 of the Ministry's 40 local offices had a caseload at or below the ideal 275 clients per caseworker. Over 80 per cent of the Ministry's cases were handled by caseworkers who had insufficient time to perform all their tasks. Three of the offices had a caseload in excess of 375 clients per caseworker. At this caseload, according to the staffing study, only half of the work would get done.

Workload pressures contributed to many of the deficiencies in administration of the Family Benefits program noted in this report. If 275 clients per caseworker is considered an acceptable standard, then the program needs a minimum increase of 350 staff.

In May 1992, the Ministry announced plans to hire 450 more staff at a cost of $18 million. This is expected to improve service to social assistance recipients and enable the Ministry to implement new measures and achieve greater efficiency in the system.

DISABILITY PENSIONS

The Ministry did not ensure that recipients collected disability pensions due to them under the Canada Pension Plan (CPP). The monthly allowances paid to eligible recipients would have been significantly reduced, or eliminated altogether, by the CPP pensions due to, and collectable by, the recipients. If all of these recipients had been granted CPP, we estimate that over the last ten years, the Ministry would have saved $300 million in Family Benefits.

There is no financial incentive for a recipient to apply for a CPP disability pension because the recipient's Family Benefits monthly allowance is reduced by an amount equal to the pension received. Therefore, the onus is on the Ministry to ensure that eligible recipients apply for the CPP pensions due to them.

We reviewed the files of approximately 170 "permanently unemployable" and disabled recipients. We noted that:

- 15 per cent of the cases tested were likely eligible for a disability pension, but no application had been sent to the federal government;
- 26 per cent of the cases tested contained an incomplete work history and eligibility could not be determined; and
- 59 per cent of the cases tested were either already in receipt of a CPP pension or were clearly ineligible for a pension due to insufficient CPP contributions.

Under CPP rules, eligible recipients can recover up to 12 months of retroactive benefits. If all those we found who were likely eligible were granted CPP then at the time of our audit in January 1992, an estimated $70 million would have been potentially recoverable from the federal government.

In May 1992, the Ministry announced plans to identify recipients eligible for income from other sources, such as the Canada Pension Plan, and to assist these recipients to secure that income.

FRAUD PREVENTION AND DETECTION

The Ministry has established guidelines to deal with fraud. However, we noted that efforts to prevent and detect fraud were insufficient.

The Ministry has 15 eligibility review officers who specialize in investigating and gathering information to be used as evidence to support decisions on eligibility, civil proceedings and criminal prosecutions. Allegations investigated most com-

monly include undisclosed earnings, cashing of duplicate cheques, ineligible dependants, undisclosed assets or an unreported spouse.

We reviewed the files for over 100 sole support parent cases. In three cases, evidence suggested that the recipients were living with their legal spouses. For example:

- Four complaints had been received over two years alleging that the recipient's spouse was living at the same address. These complaints were not followed up in accordance with Ministry policy. On two occasions, the recipient signed a declaration that the spouse did not reside in the same home. The Ministry discovered that the spouse did use the same address, but no formal investigation was ever conducted.

3.03

Despite the existence of procedures to follow up on potential frauds, the Ministry was not aggressive in prosecuting suspects or in obtaining restitution. For example:

- the Ministry discovered that a recipient and spouse had worked full time for over three years and had not reported all their income. This alleged fraud cost the Ministry $25,000. Neither a civil nor a criminal case was pursued. We were advised by the Ministry office responsible that it did not prosecute frauds of this nature; and
- a sole support parent lived with a common-law spouse for over five years. The recipient was charged and convicted of fraud. In 1987, the court ordered restitution of $26,000 and issued a writ of seizure and sale of the recipient's home. The common-law spouse also signed a promissory note to reimburse the Ministry. Nothing has been collected to date and the Ministry has not enforced the writ.

Because of the nature of fraud, it is not possible for the Ministry to accurately quantify its total extent. However, in 1987, a consultant retained by the Social Assistance Review Committee reported that the proportion of funds lost through welfare fraud represented at least 2.59 to 3.66 per cent of the total payments within the Ontario social assistance system. Applying these percentages to Family Benefits payments of $2.73 billion would indicate a loss through fraud of between $70 million to $100 million for the 1991/92 fiscal year.

The Ministry is in the process of hiring 35 additional eligibility review officers and has recently drafted a new policies and procedures manual. In May 1992, the Ministry announced that with the additional staff they will be in a better position to detect and reduce fraud to ensure that people on the system are those who truly need assistance.

OVERPAYMENTS

Overpayments occur when the allowances paid exceed the amounts Family Benefits recipients are entitled to receive. Overpayments that arise essentially as a result of delays in recipients failing to report changes in personal or family circumstances, or in not disclosing or misrepresenting facts, are considered collectable by the Ministry. As of March 31, 1992 such overpayments totalled approximately $140 million, with $80 million due from active recipients and $60 million due from inactive (former) recipients. Additionally, overpayments totalling more than $50 million have been written off as uncollectable by the Ministry over the past five years.

Overpayments arising from recipients being paid a greater allowance than they are entitled to because of a Ministry error are not considered collectable. During the 1991/92 fiscal year, such overpayments totalled $1 million.

OVERPAYMENT RECOVERY

Overpayments due from active recipients are normally recovered by an average 5 per cent reduction in their monthly allowance until the full amount of the overpayment has been repaid. We found that the collection of overpayments from active recipients was generally satisfactory.

In the case of overpayments collectable from inactive (former) recipients, the Ministry attempts to negotiate a repayment schedule with the recipients. If unsuccessful, or if payments fall into default for over 60 days, the overpayment is required to be referred to the Central Collection Service of the Ministry of Government Services. We reviewed the Ministry's collection efforts to recover the $60 million owed to the Ministry by former recipients. We found that collection efforts were inadequate:

- in 70 per cent of the cases we reviewed, none of the outstanding debt had been repaid. We estimated that during the 1991/92 fiscal year, the Ministry collected less than 3 per cent of outstanding overpayments. The Ministry's collection program relied on voluntary repayment. Legal remedies were not pursued; and
- we found that delinquent accounts were rarely referred to the Central Collection Service of the Ministry of Government Services as required by Ministry policy. The Central Collection Service has a better collection record than the Ministry. For example, an overpayment of $38,000 arose in 1988 because a former recipient was not living as a sole support parent. Computer-generated monthly statements were sent to the recipient until August 1991, when the statements came back undelivered. No further action was taken and nothing has been collected to date. Even though the case has been delinquent for three years, it has not been referred to the Central Collection Service.

A contributing factor to the poor collection effort is a lack of staff to collect overpayments. The Ministry indicated that overpayment collection from former recipients was of secondary importance to managing the active caseload.

OVERPAYMENT WRITE-OFFS

Order-in-Council approval is required before an overpayment can be written off. The practice of assessing uncollectable overpayments for write-off varied at the three offices we visited. One office had given caseworkers full responsibility for assessing write-offs, a second office had assigned one employee to handle all overpayments, and the third office did not assess any accounts for write-off.

Ministry policy permits recommending overpayments for write-off only when the recipient has no financial ability to repay the debt. However, we found that overpayment balances were commonly written off without such an assessment. The reason given in 60 per cent of the write-offs we reviewed was that the whereabouts of the former recipients were unknown. There was no evidence that any efforts had been made to locate these recipients. For example:

- A recipient's allowance was terminated in August 1988 with an outstanding overpayment of $23,000. The recipient repaid $10 in 1988 and $21 in 1989. Monthly statements were returned in February 1990 without a forwarding address. No further efforts were made to search for the recipient and the overpayment was written off.

The Ministry of Treasury and Economics requires that opportunities to recover amounts owed, even subsequent to write-off, should be pursued. However, some former recipients who had their overpayments written off were again receiving Family Benefits allowances. The overpayments previously written off were not reinstated for recovery.

We estimate that $2.6 million in overpayments written off in 1988/89 and 1989/90 pertained to recipients who were again receiving assistance. The Ministry collects overpayments due from active recipients by reducing the basic monthly allowance by 5 per cent. Therefore, the Ministry has been effectively foregoing the collection of over $300,000 per year from these recipients.

OVERPAYMENT PREVENTION

3.03

Some recipients receive their full Family Benefits allowances while waiting to receive income from other sources. Their allowances are subsequently adjusted when they start receiving additional income. A case in point is a recipient's entitlement to disability benefits under the Canada Pension Plan.

The Canada Pension Plan pays retroactive disability pensions for up to 12 months. An overpayment occurs when a recipient has received a full Family Benefits allowance and later receives a retroactive pension payment after approval of the pension application. To avoid an overpayment, the recipient can direct the federal government under the *Canada Pension Plan Act* to send the retroactive payment directly to the Ministry.

We found that the Ministry does not normally receive an assignment of retroactive payments. During a nine-month period in the 1991 calendar year, we estimated that at least 1,000 recipients received a retroactive Canada Pension Plan payment. However, Ministry records indicate that fewer than 200 retroactive payments totalling $700,000 were assigned to the Ministry. For the other 800 recipients, we estimate that overpayments of $3 million occurred as a result of retroactive payments not being assigned to, or collected by, the Ministry. For example:

- in March 1987 a recipient applied for the Canada Pension Plan disability pension. The recipient signed a consent form to assign the retroactive payment receivable from the federal government to the Ministry. The consent form was never sent to the Canada Pension Plan office. Consequently, the recipient later received a cheque for retroactive disability benefits but did not pay the amount of $13,500 received to the Ministry. The Ministry has recorded the amount as an overpayment and is now recovering the amount, per Ministry policy, at the rate of approximately $30 a month from the recipient's Family Benefits allowance.

In May 1992, the Ministry announced that every effort would be made to streamline the system to minimize overpayments and to increase efforts to recover overpayments paid to clients who have left the social assistance system.

MAINTENANCE AND CHILD SUPPORT

The Ministry pays approximately $1.3 billion annually to over 140,000 sole support parents. Some of these recipients collect maintenance or child support payments from their spouses. The Ministry deducts such payments received from the monthly allowances payable to these recipients. We estimate that currently over $50 million in such payments are being collected annually by recipients and deducted from their allowances.

The Ministry has developed detailed procedures to guide staff and assist sole support parents in the pursuit of maintenance and child support payments. We reviewed these procedures and over 100 sole support parent files. We found that:

- in over 70 per cent of the cases, either no support was received or only nominal amounts were received. In many cases, evidence suggested that the recipients had not made reasonable efforts to obtain support from the other

parent. The Ministry did not reduce the monthly allowances in any of these cases, although it has the authority to do so under the Family Benefits legislation;

- Ministry procedures were not adequately performed in over 50 per cent of the cases. For example, a recipient was granted assistance in April 1991 as a sole support parent. The spouse offered to pay $100 per month in child support. No follow up on this offer was made and no support was received;
- a primary reason for waiving the pursuit of support is the unknown whereabouts of the other parent. Ministry policy requires a review of such cases periodically to determine whether circumstances have changed. However, in 70 per cent of the cases we examined, these waivers were not reviewed on a timely basis. We estimate that there are 40,000 such cases across the province; and
- caseworkers are required to ensure that the amount of existing support payments are adequate in light of the other parent's ability to pay. We noted that adequacy of support received was not assessed when the circumstances of the other parent changed. For example, a recipient negotiated $50 per month support in February 1989. This amount was considered appropriate at the time because the spouse was unemployed. However, subsequent file updates indicated that the spouse was working full time. The recipient continued to receive $50 per month because the adequacy of the amount was not reconsidered. One of the offices we visited responded that court orders and private agreements are not being reviewed for adequacy due to workload demands.

The Ministry has only 50 parental support workers to assist sole support parents to locate and obtain support from their spouses. The Ministry has determined that direct savings resulting from the parental support function exceed costs by a ratio of 14 to 1. Thus, significant savings would be realized if the parental support function were expanded.

New family support legislation went into effect in March 1992. This legislation makes Ontario the first province to implement mandatory payroll deductions of court-ordered support payments.

Also, in May 1992, the Ministry announced plans to hire new staff to address the issue of support.

ELIGIBILITY

Unlike the General Welfare Assistance program which provides short-term assistance to persons in need, the Family Benefits program provides assistance on a long-term basis.

To be eligible for assistance, applicants must meet two basic criteria. Firstly, applicants must fall into one of the eligibility categories defined in the *Family Benefits Act* and Regulation. These categories include sole support parents, the disabled, the elderly, parents of disabled children, and participants in vocational rehabilitation training. Secondly, applicants must demonstrate a need for assistance. If applicants have assets or income in excess of specified amounts, they are expected to support themselves and are not eligible for an allowance or benefits.

BASIC ELIGIBILITY

We reviewed a representative sample of 300 case files at the three Ministry offices we visited to determine whether the recipients were eligible for assistance as set out in the Family Benefits legislation. We noted that:

- all of the 167 recipients who were blind, disabled or "permanently unemployable" were correctly certified within the

meaning of the Family Benefits legislation. However, in three cases the recipients were given an increased allowance for a "permanently unemployable" spouse when the spouse was not certifiable as such. The Ministry overpaid these recipients by $10,000; and

- of the 104 sole support parents, there were three cases where the eligibility of dependents was questionable. For example, in one case the recipient received an increased allowance for a child which was in the care of a Children's Aid Society. The Ministry paid out an additional $9,000 in the three cases on the basis that such dependents were eligible; and
- the Ministry had properly established basic eligibility for the remaining 29 recipients in our sample who were elderly, in vocational training or parents of disabled children.

We also reviewed each of the 300 cases to determine whether the recipients had assets in excess of the limits imposed by legislation. We found six clients whose assets exceeded these limits. For example, one recipient had $8,000 in the bank which exceeded the $5,500 limit. In three cases, recipients owned cars and, contrary to Ministry guidelines, the necessity of the vehicles had not been established.

Our audit was limited in scope to a review of the information contained in each case file. We accepted this information unless inconsistencies were evident. We cannot attest to the accuracy or completeness of the recipients' disclosures.

With the above exceptions, we were generally satisfied that the Ministry had properly established the basic eligibility of recipients.

VERIFICATION OF CLIENT INFORMATION

Persons in need of financial assistance meet with a caseworker to complete an application form. The information provided is used to determine the applicant's eligibility and the amount of assistance. The caseworker is required to inspect documentation from the applicant such as birth certificates, rent receipts and employment pay stubs. Where applicable, this information must be updated and verified annually.

We found that the information upon which the allowance was based was not always verified either at the time of application or during the annual updates. For example:

- most recipients receive a variable shelter allowance which is based on the amounts paid for rent, mortgage, property taxes, heating, utilities and other costs. If such costs are not properly verified, the monthly allowance paid could be incorrect. We noted that actual costs were not verified in 27 per cent of the cases we reviewed. For example, a recipient moved to rental housing in September 1988. Until late 1991, the recipient continued to receive an allowance for property taxes, heating and utilities even though these expenses were no longer paid. Lack of verification resulted in this recipient being overpaid by $5,000;
- the monthly allowance paid to recipients varies depending on the number of dependant children in the family and their ages. Consequently, verification of birth is mandatory for all dependants. In 12 per cent of the recipients reviewed who had dependants, the birth date of a dependant child was never verified. For example, a verification of birth request sent to the Registrar General in 1989 was returned "No Record". This was not followed up to ensure the existence and parentage of the child; and

- a benefit is provided to the parents of severely disabled children to help meet the ongoing costs of the disability. The amount of this benefit is based on the cost of the special needs resulting from the disability, and on the income of the parents. In our sample, we questioned the amounts paid to four of eleven parents because their incomes had not been reported or verified annually as required.

We estimate that the Ministry has overpaid $30 million in Family Benefits across the province due to a lack of proper verification of information provided by clients. A 1991 audit of an area office by the Ministry's Comprehensive Audit and Review Branch estimated the overpayment at $50 million, based on an error rate of 2.3 per cent applied across the province.

UPDATING OF CLIENT INFORMATION

Ministry policy is to review every case annually to ensure that recipients continue to be eligible and that the proper amount of allowance is paid. Caseworkers meet with sole support parents each year to complete a Client Information Update Report and meet with most other recipients every third year. During the intervening two years, these other recipients are required to complete an update report and mail it in to the Ministry.

We noted that the annual file updates had not been performed in over a year for almost 15 per cent of the recipients tested. For example:

- a recipient was granted assistance in February 1987. The last Client Information Update Report was completed in December 1988;
- another recipient was granted assistance in April 1987. Reports were mailed in by the recipient in the years 1988 to 1991. However, there had been no personal contact by a caseworker with the recipient since assistance was granted. According to Ministry policy, a Client Information Update Report should have been completed in April 1990;
- a Client Information Update Report for a sole support parent had not been completed since June 1989. Employment earnings were reported by this client up to September 1990. A deduction from the recipient's allowance for these employment earnings was still being made in October 1991 based on earnings estimated over a year ago; and
- a recipient's file had not been updated since June 1990, and we questioned why the individual was not receiving a pension from the Canada Pension Plan. The Ministry subsequently reviewed this case and found that the recipient had, in fact, been receiving a pension since December 1990. As a result, this recipient had been overpaid approximately $9,000.

Lack of up-to-date information on file for the recipients tested makes it difficult, if not impossible, to determine whether recipients are being paid the proper amount.

RESPONSE

The Deputy Minister of Community and Social Services responded to our report on September 14:

Many of the initiatives announced by the Minister in May of this year will address the concerns identified in your report. The following are our comments in response to the specific issues raised in the report.

STAFFING

3.03

I appreciated your recognition of the impact that caseload growth has had on the Ministry's ability to fulfil our obligations to eligible clients, to the legislation and to the taxpayer. You clearly identified the need for additional staff in order to address the workload pressures which have contributed to many of the deficiencies in administration of the Family Benefits program.

In the spring, the Ministry received approval to hire 450 additional staff in order to ensure that the legislative requirements of the Family Benefits Act *are fulfilled, opportunities for recipients to obtain financial independence are maximized, customer service is improved at the intake level, inaccuracy of payments to recipients is minimized and the ability of program delivery staff to do their job is improved.*

As of June 30, 1992 an initial 200 staff have been hired and are in the process of being trained. The balance of 250 staff will be hired on a phased-in basis.

With the additional staff, the Ministry will be able to address many of the shortcomings identified in your report.

DISABILITY PENSIONS

The Ministry agrees that there are savings to be accrued through greater emphasis in ensuring that eligible recipients apply for CPP benefits that may be due to them. I appreciate your bringing this issue to our attention early in the course of your audit. This enabled the Ministry to quickly respond to your concern by taking steps to prevent future overexpenditure of Family Benefits allowances.

The Ministry has undertaken a review of all disabled and permanently unemployable recipients who are not in receipt of CPP. Recipients who have potential CPP eligibility have been advised to make application. The results are being monitored to ensure that, where appropriate, allowances are adjusted in a timely manner. Once the review has been completed, the Ministry will be in a position to quantify actual savings from this activity.

Staff have also been directed to improve practices to inform applicants/recipients about other income to which they may be entitled, emphasize the requirement to pursue this income and utilize the assignment form which allows for reimbursement to the Treasurer of Ontario of any arrears.

The Ministry is also making changes to the automated system which will improve workers' ability to follow up on cases where pursuit of other income is an issue.

FRAUD PREVENTION AND DETECTION

As of June 30, 1992, 30 additional Eligibility Review Officers have been hired. Increasing the number of Eligibility Review Officers will result in more effective prevention, detection and prosecution of fraud as well as increased recovery of funds.

The Ministry agrees it is not possible at this time to accurately quantify the extent of fraud. We are in the process of developing an automated data system which will make it possible to better assess the degree of fraud, and to focus our efforts to minimize its occurrence.

OVERPAYMENTS

OVERPAYMENT RECOVERY

The Ministry has increased its efforts to recover overpayments paid to clients who are no longer in receipt of Family Benefits. Staff have been assigned in each Area Office to ensure effective review and follow up on closed cases with overpayments. Where efforts to recover are unsuccessful, cases will be referred to the Central Collection Service of the Ministry of Government Services.

The Ministry is continuing to work with Central Collection Services to improve referral and collection procedures in order to better achieve our mutual goal of increasing the amount of debt repayment.

OVERPAYMENT WRITE-OFFS

The Ministry agrees that improvements can be made in its policy and procedures for writing off overpayment balances. A review of Ministry policy and procedures will be undertaken within the next year and changes will be made to ensure that the Ministry does not forego the collection of overpayments as long as meaningful opportunity to recover exists.

OVERPAYMENT PREVENTION

The Ministry is cognizant of the need to minimize the amount of improper payments to recipients of Family Benefits. Prevention of overpayments will benefit the Ministry, the client and the taxpayer.

The initial 200 staff, including 111 Income Maintenance Officers, which were hired to address immediate workload pressures, will be concentrating on savings objectives such as overpayment recovery, eligibility for other income such as CPP and support, eligibility review, employment linkages and increased use of direct deposit of the payment of FBA allowances.

Eligibility Review Officers will be more pro-active in identification of patterns and high risk situations and in conducting random reviews.

The number of Program Review Officers has been increased by 13 to ensure more efficient management of the program by timely completion of compliance and operational audits. This includes audits of case files to ensure proper application of program rules. Intervention of additional PRO staff will provide greater detection of error resulting in net savings due to reduction of undetected overpayments.

MAINTENANCE AND CHILD SUPPORT

The number of Parental Support Workers has been increased by 49 to enhance the Ministry's ability to assist clients in securing support agreements/orders, review adequacy of support obligations, follow up to identify cases with arrears and facilitate collection.

Income Maintenance Officers will be directed to ensure that information on the whereabouts of the absent parent is updated at the time of each annual review.

As you know, responsibility for enforcement of support orders lies with the Ministry of the Attorney General, which administers the Family Support Plan. I have written to my colleague in that Ministry to seek his cooperation in ensuring appropriate service for social assistance clients.

3.03 ELIGIBILITY

BASIC ELIGIBILITY AND VERIFICATION OF CLIENT INFORMATION

I am pleased to know you were generally satisfied that the Ministry had properly established the basic eligibility of recipients. However, with additional Income Maintenance staff, the potential for error will be even further reduced.

Your findings confirm the importance of proper file documentation to support decision making around eligibility and entitlement. As part of a recent review, the Ministry will be establishing clear guidelines to reinforce documentation requirements.

Verification of information relevant to eligibility determination is a key component of the accountability process. It is Ministry policy that visual verification is acceptable as long as the verification is noted on file. I believe that staff are verifying information with clients, but it is possible that recording is insufficient.

In many instances, verification cannot be produced at the time of contact and follow up is required. Workload pressures have contributed to the ability of staff to deal sufficiently with the demand for follow up. The additional staff coupled with system changes will help to address this issue.

There will be communication with staff, and appropriate follow up, to ensure there is a clear understanding of documentation requirements.

UPDATING OF CLIENT INFORMATION

I fully agree that lack of up-to-date information presents a problem when attempting to determine whether recipients are being paid the proper amount.

Inadequate staffing has greatly contributed to this problem. Once again, the addition of new Income Maintenance staff will help to ensure that regular eligibility reviews are completed.

MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS:

Elevating Devices

The Ministry of Consumer and Commercial Relations spends approximately $4.5 million annually to ensure that elevating and amusement devices installed and operated in Ontario are safe for use and meet required safety standards. Traditionally over 80 per cent of these costs have been recovered in the form of licensing and inspection fees.

We assessed whether elevator inspection efforts were adequate to ensure that required safety standards were being met. Our audit focused on elevating devices and was conducted primarily at the Ministry's head office. We accompanied inspectors on field visits and obtained information from them by means of questionnaires and interviews. We also interviewed representatives of an All-Industry Committee representing the National Elevator and Escalator Association and the Canadian Elevator Contractors' Association.

CONCLUSION AND FINDINGS

Inspection efforts were inadequate to ensure the relevant safety standards were being complied with.

- Although Ministry standards generally require elevators to be inspected every two years, inspections were being done on a five- to six-year cycle. Other provinces are generally on an annual inspection cycle.
- The Ministry needed to improve its ability to set inspection priorities and optimize inspection resources. For instance, three districts with a history of inspection backlogs, fatal accidents and contractor prosecutions did not have a full-time inspector on staff.
- Disciplinary action against elevator contractors who repeatedly violated important safety requirements was inadequate. For instance, the Ministry took limited disciplinary action against 22 contractors who serviced 12,000 elevators, despite the fact that many of them have had their performance rated as unacceptable since 1987.
- The Ministry lacked specialized electronic engineering expertise to enable it to evaluate certain electronic components in new and existing elevators.

BACKGROUND

The objective of the Elevating Devices Branch is to reduce the risk of death or injury to the public arising from the use of elevating devices. The Branch receives its mandate from the *Elevating Devices Act* and Regulations.

The Act calls for elevator owners to prominently display their annually issued licences to operate elevators. These licences only provide assurance that the elevators have passed an initial inspection, since a re-inspection is not required to renew the licence each year.

3.04

The Branch's main activities with respect to elevating devices are:

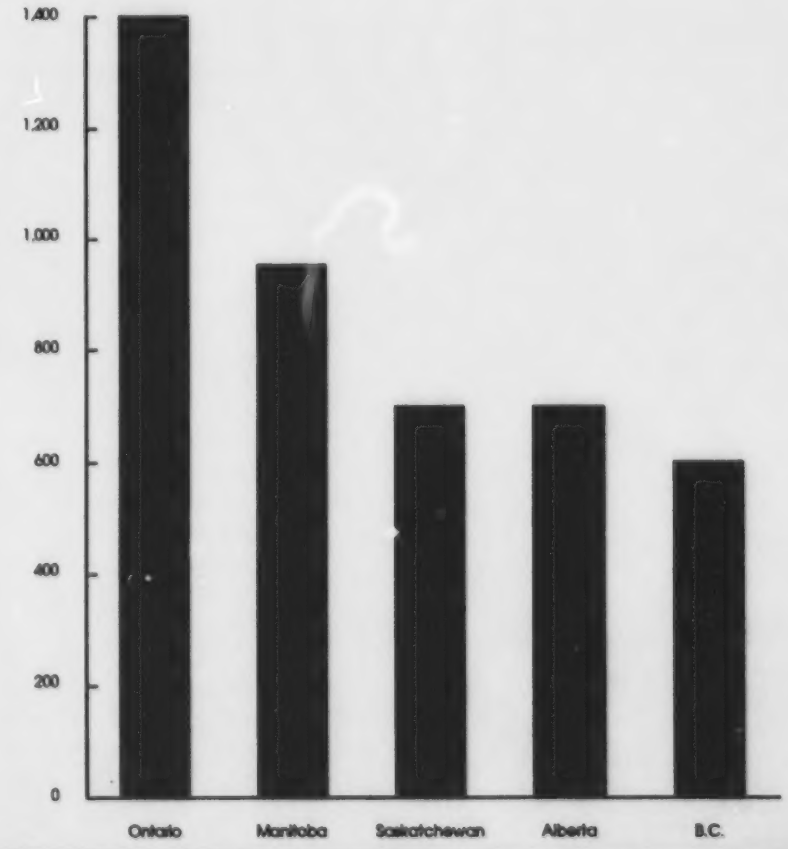
- registration and review of engineering designs for new and altered devices;
- initial inspection and approval of such devices prior to their being put into operation;
- periodic inspections of existing installations;
- registration and monitoring of elevator contractors who install, maintain and repair devices; and
- investigation of safety-related incidents and complaints.

At the time of our audit, the Branch had a staff of approximately 70, of whom 25 were qualified elevator inspectors, 9 were elevator inspector trainees, and 22 handled the licensing of elevators and the registering of contractors and engineering designs. The remaining staff provided technical and administrative support, and regulated amusement devices.

The Branch is responsible for approximately 35,000 elevating devices, most of which are passenger elevators. Other elevating devices include escalators, lifts and hoists.

The number of elevators in Ontario has risen by 45 per cent since 1978. However, the number of elevator inspectors has decreased by 34 per cent. Ontario's ratio of installations per inspector is approximately double that of some other provinces, as illustrated in the following graph.

Approximate Number of Elevating Installations Per Inspector - By Province



Ministry records show that nearly 90 per cent of Ontario's elevators are serviced by 1,600 mechanics working for 200 general contractors. The rest are serviced by 1,300 mechanics under the direct employ of 300 building owners.

COMMENTARY

INSPECTION COVERAGE

A strong inspection presence can significantly deter non-compliance with the Act and Regulations, thereby minimizing public safety risks in the use of elevators. This is particularly important given that elevator mechanics are not members of a licensed or regulated trade.

This has been echoed by the elevator industry, Ministry inspectors and coroner's inquests. In fact, Ministry standards call for periodic inspection of virtually all elevators in the province at least once every two years. These standards are in line with those of other provincial jurisdictions which generally strive for and accomplish an annual inspection cycle.

Our review showed that on average, an Ontario elevator is re-inspected only once every five to six years.

This is a significant decrease from 1978 when, on average, Ontario elevators were inspected annually. Specifically:

- Approximately 40 per cent of Ontario's elevators were overdue for inspection. This backlog ranged from 12 per cent in one district to 62 per cent in another.
- Two thirds of the 6,000 elevators installed in the last four years had not been re-inspected since their original installation.

In addition, we noted:

- Non-compliance rates had virtually doubled in the last ten years. In 1992, 50 per cent of inspections detected non-compliance requiring follow-up, compared with 24 per cent in 1981. Given the current inspection backlog, the amount of undetected non-compliance could be significant.
- The nature and extent of non-compliance had also worsened. At the time of our audit, deviations averaged 2.6 violations per inspection, compared with 1.3 in 1978, and these violations were more serious in nature.
- The number of minor accidents had risen from 384 in 1988 to 508 in 1990.
- Coroners' juries investigating fatal elevator accidents have recommended that inspection coverage be improved.

A recent Ministry study indicated that the cost of hiring additional inspectors could be more than offset by the inspection fees generated.

INSPECTION FOCUS

We acknowledged that much of the inspection backlog could be explained by the fact that the number of elevating devices had almost doubled since 1978 yet the number of elevator inspectors had decreased. In times of constrained resources, it is particularly important that management determine the most critical operational priorities and allocate resources accordingly.

Discussion with Ministry personnel and representatives from the elevator industry revealed that ongoing maintenance by the contractors' mechanics was the key factor in keeping elevators in good working order. While the Branch rates the performance of elevator contractors, we saw little correlation between this rating and the scheduling of inspections.

For instance, nearly 35 per cent of Ontario elevators were serviced by 22 contractors whose performance had been consistently rated as unacceptable by the Ministry, some as far back as 1987. Despite this risk,

these installations were not being inspected more frequently.

In reviewing the allocation of inspectors, we noted that despite having a history of inspection backlogs, fatal accidents and contractor prosecutions, three districts in the province lacked a full-time inspector and consequently had significant inspection backlogs. We recommended that inspectors be allocated to these districts on a part-time basis to reduce the current backlog.

3.04

The Branch recognized the need to improve this aspect of their operation, and is in the process of developing a database to enhance its ability to set inspection priorities based on risk.

ENFORCEMENT

The *Elevating Devices Act* calls for the Ministry to register and monitor all contractors who install, maintain and repair elevators. The spirit of the Act calls for contractors to have an adequate number of competent mechanics who are familiar with the *Elevating Devices Act* and Regulations.

The Ministry has various powers under the Act to deal with unacceptable contractor performance. These include shutting down an installation until compliance is achieved, calling hearings and issuing warnings, revoking or suspending licences, and prosecution.

We found disciplinary action against the 22 contractors, many of whom had repeatedly received unacceptable performance ratings since 1987, to be inadequate. For instance:

- Despite this continuous unacceptable performance, only a limited number of disciplinary hearings and prosecution attempts were made. None of these repeat offenders had their registration revoked or even temporarily suspended.
- Disciplinary hearings were usually case specific, and did not address overall poor performance. Furthermore, prosecution attempts were generally limited to situations involving serious injury or death.
- One such contractor servicing 13 per cent of the province's elevators, had had an unacceptable rating since 1988 and was successfully prosecuted in connection with a 1989 fatality. No subsequent disciplinary action was taken despite continued poor performance and serious safety complaints.

The Act has clearly provided the Branch with the necessary measures to protect the safety of the public. While such measures must be used judiciously, in situations where contractors have consistently failed to meet the required safety standards, the Branch must be prepared to take the appropriate action to ensure compliance with established standards.

RESOURCE EXPERTISE

Discussions with Branch officials and the elevator industry revealed that elevating technology has changed considerably over the past 30 years, particularly in the area of electronics. Electronic controls are important safety features designed to prevent:

- the elevator moving while the doors are open;
- doors to the elevator hoistway opening when the elevator is not there; and
- doorways closing on passengers.

The Branch lacked specialized electronic engineering expertise to thoroughly review and test new elevator installations.

Branch managers estimated that around 10,000 elevators may not meet required safety standards. Furthermore, there have been cases in which elevator manufacturers have notified the Ministry of potentially dangerous deficiencies in these devices after decades of operation.

RESPONSE

The Deputy Minister of Consumer and Commercial Relations responded to our report on September 10:

Ministry management recognizes that the level of periodic inspection activity in the Branch has dropped in the past five years while the ratio of installations to inspectors has risen. To ensure that public safety risks are minimized, the Branch has undertaken a number of significant initiatives to increase its productivity while continuing to meet its corporate commitment to fiscal restraint.

In addition to the specific initiatives outlined [below], the Ministry is continuing to review alternate service delivery options and funding mechanisms to increase the resource base of the Technical Standards Division.

CONCLUSIONS AND FINDINGS

We do not agree that inspection efforts were inadequate to ensure compliance with safety standards.

Point #1

A two-year inspection cycle for elevators is not necessarily required for every device in order to protect public safety. While many provinces inspect annually, inspection cycles do vary: in Alberta, inspections occur every two years and in British Columbia, every 30 months. The frequency of inspection need depends on many factors: the type of components in the device, its maintenance history and the type of directions issued against it. Elevators have many redundancies built into them to ensure that should a system fail, a back-up system will take over. Inspection may result in directions being issued for relatively minor code infractions rather than for violations which could result in serious safety problems. An average inspection cycle is not meaningful given the differences among individual devices.

The Elevating Devices Branch is currently implementing an automated licensing, registration and inspection system which will provide management with a sophisticated risk-management tool. Phase I of the Inspection, Design, Engineering, Data Cross Reference System (INDEX) has been implemented. Phase II, the inspection system, is expected to be implemented in the fall of 1992. When the new data base is fully populated, the Branch will have the ability to cross-reference the inspection history of an elevating device, its technical specifications and the performance record of its maintenance contractor in order to assign a periodic inspection cycle based on the identified risks for each device. This cycle may be annual or it may be as high as every five to six years.

Point #2

The Elevating Devices Branch does not have the number of inspectors which it requires to provide on-going inspection coverage to all areas of the province. As a result, there are three districts which do not have a full-time inspector on staff. Two districts in Ottawa and one in Thunder Bay have been vacant both because the Branch has not had sufficient resources to hire additional staff and because it has had difficulty recruiting staff when resources did become available in the past. On an "as needed" basis, other inspectors travel to those three districts now. To further address these difficulties, the Branch began a three-year internal training program in 1990. Three trainees started

in August 1990 and another six were hired in July of 1991. When the first trainees have completed the training program in 1993, they will be assigned to the vacant districts.

The Branch will also be utilizing the four inspectors currently assigned to amusement devices and construction hoists to conduct periodic inspections on a part-time basis. This temporary reassignment is possible because of the recent general decline in construction activity.

Point #3

The Elevating Devices Act *places responsibility for compliance with owners and maintenance contractors through regulations and codes which set safety standards. Contractor performance ratings are determined by analyzing the directions issued against the installations maintained by each contractor. The performance rating therefore is based only on the inspections that have taken place and does not necessarily reflect performance for all installations maintained by an individual contractor. Therefore, we dispute your statement that disciplinary action was inadequate. Further, an unacceptable rating only applies to specific sites, not to every site being maintained by a contractor. We have taken appropriate action on specific site concerns.*

3.04

In taking disciplinary action against a contractor, the Branch evaluates the impact of the range of options available under the Elevating Devices Act. *For example, any installation which is deemed to be unsafe is ordered shut down until repairs or modifications are made. Each violation of the Act must be examined on an individual basis to determine the most appropriate and cost-effective means to ensure compliance. The Director has the authority to revoke a contractor's licence, subject to a hearing. The Act also provides for an appeal to the courts by the contractor. Prosecution can also be initiated for individual violations.*

These processes can be time-consuming, expensive and, in the case of licence revocations, the impact on all clients of the contractor must be assessed. If a licence is revoked, buildings with installations where no violations have been found may be deprived of maintenance. Prosecution has a deterrent effect and the Branch does take that action when violations occur. Over the past three years, for example, 19 prosecutions have taken place.

Point #4

The need for specific electronic engineering expertise within the Elevating Devices Branch is recognized. Resources have not been available to fund this position and recruitment could have taken place in the past two years only if two critical inspector-trainee positions had been eliminated. It must be noted, however, that the Branch does have extensive engineering expertise and that all design specifications submitted to the Branch have been reviewed and sealed by a professional engineer prior to their submission. However, as the components on elevating devices become more sophisticated, the need for internal expertise has grown. The Branch has therefore taken steps to ensure that funding to recruit for an electronic engineer will be available at the beginning of the next fiscal year.

COMMENTARY

INSPECTION COVERAGE AND FOCUS

We recognize that a strong inspection presence can help minimize public safety risks through its deterrent effect.

The Branch has taken steps both to increase its inspection resources and to enhance its ability to set inspection priorities based on risk assessment.

As noted earlier in this response, the Elevating Devices Branch began an internal training program for inspectors in 1990. This will provide the Branch with a total of nine additional inspectors by 1994 and will result in improved inspection coverage. The Branch will also be using the four inspectors currently assigned to inspection of amusement devices and construction hoists to conduct additional elevating device inspections on a part-time basis.

The Branch is also currently implementing the INDEX system to help address the issue of inspection focus. The risk-management tool will allow the Branch to establish a periodic inspection cycle for each device based on its technical specifications, and its inspection and maintenance history. The Branch can then target its inspection resources at those devices requiring more frequent inspection.

In addition to the steps outlined above, the Branch is assessing alternate delivery mechanisms as a means of continuing to improve its inspection operations.

ENFORCEMENT

The Elevating Devices Act *places responsibility for compliance with owners and maintenance contractors and, as noted earlier in this response, the Branch has taken appropriate action to deal with specific concerns in this regard.*

In addition to the specific disciplinary actions which the Branch has undertaken to ensure compliance, it is also dealing with the issue of contractor performance by addressing the training needs of the elevator mechanics employed in the industry.

The quality of training of elevator mechanics employed by contractors has been of concern to both Branch management and industry. The need for formalized training programs has also been identified in coroners' recommendations. Branch staff are currently working with the Ministries of Skills Development and Labour, as well as with industry and labour representatives, to develop a formal certification program for mechanics. By ensuring that all contractor staff have met the same training standards, this program will improve compliance and public safety.

RESOURCE EXPERTISE

As noted earlier, the Branch recognizes the growing need for electronic expertise and has made resources available to hire an electronic engineer at the beginning of the next fiscal year.

MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS:

Real Property Registration

3.05

The Ministry of Consumer and Commercial Relations spent $40 million in the 1991/92 fiscal year for the Real Property Registration Activity to provide for the registration of interests in real property and to make registered information available to the public. Fee revenue for the same period amounted to over $54 million.

Our objective was to assess whether the registration process ensures an accurate, reliable, secure, and cost-effective land registration system.

We conducted audit work at head office, held discussions with regional managers, and visited 16 registry offices for detailed testing. The computerized land registration system (POLARIS) was not included in the scope of our audit.

CONCLUSION AND FINDINGS

We concluded that overall, the registration process was satisfactory in ensuring an accurate, reliable, secure, and cost-effective land registration system, although improvements could be implemented in security and cost effectiveness.

INFORMATION SECURITY

- Nine of eleven land titles offices visited had backlog problems in microfilming of documents.
- Back-up master microfilm records were stored in an off-site environment that did not meet international standards for the long-term storage and preservation of microfilm.

COST EFFECTIVENESS

- The registry offices' writs of execution system duplicated a system maintained by the Ministry of the Attorney General. According to a joint task force report, the consolidation of the two systems could save about $380,000 annually.
- Revision of the filing requirements for certain complex registrations would reduce staff time spent pre-approving documents.
- Although self-service systems were more efficient, only 8 of 16 offices visited offered a complete self-serve option for users, in part because of a shortage of high quality reader printers.

OTHER MATTER

The integration and closing of registry offices will have a number of benefits, including operating savings of up to $1 million annually. An additional $8 million in capital cost savings was projected based on construction proposals rather than on committed funds. However, it is unlikely that approval for construction would have been obtained for many of these projects.

BACKGROUND

The Real Property Registration Activity's primary objective is to enable the owner-

ship of, and encumbrances affecting, real property to be preserved and readily determined, and to ensure instrument security, availability and legality. The program is operated through 6 regional and 55 land registry offices.

Each office operates under one or both of the two land registration systems in Ontario: the registry system and the land titles system, which are governed by the *Registry Act* and the *Land Titles Act*, respectively.

In both systems, the government records, files, and makes available to the public registered documents. Under the titles system, the government additionally provides a guarantee on title. A $1 million Land Titles Assurance Fund provides compensation to individuals who suffer financially due to fraud or error involving document registration.

We visited a mixture of small, medium and larger registry offices in each region, representing half of the Branch's registrations. In addition, we extended our coverage through questionnaires given to all regional managers, land registrars, and a selection of registry staff.

Over the last several years the Ministry has been developing a computerized land registration system known as POLARIS. In 1991 the Province formed a partnership with a private sector consortium, Teranet Land Information Services Inc., to implement POLARIS in all registry offices over the next several years. This initiative was outside the scope of our audit.

COMMENTARY

REGISTRATION PROCESS

Land registry offices register, store, index, and preserve documents relating to the ownership of real property. These documents include deeds or land transfers, mortgages or charges, mortgage assignments or discharges, plans of subdivision, and construction liens.

Registry staff perform an initial review of documents submitted for registration to ensure that they relate to land and have been completed properly. Once accepted for registration, the documents are abstracted, which is a process of summarizing key instrument details in books known as abstract indexes or parcel registers. For land titles, register entries are then signed by senior staff, making registration effective. All documents are microfilmed shortly after registration, and copies of these films are maintained both on- and off-site.

EXAMINATION OF REGISTRATION PROCESS

We examined 420 registrations, 30 each at 14 of the offices visited. Our tests included ensuring completeness of documents, correct abstracting, collection of appropriate fees, and the availability of both on- and off-site microfilm copies.

We were satisfied with the accuracy and reliability of the registration process, as there were no problems noted for almost 99 per cent of the transactions which we tested.

INFORMATION SECURITY

Ensuring that registered information is both accessible and secure is critical to the delivery of registry services.

In recognition of the need to prevent loss of information and the risks associated with its public use, land registry offices follow a number of security procedures, such as microfilming books and documents, sign-out procedures for clients requesting books and documents, and off-site storage of microfilmed records.

3.05

While we were satisfied overall with controls over information security, we found that certain procedures could be improved.

BACKLOGS OF DOCUMENTS TO BE MICROFILMED

A risk of information loss existed with registered documents awaiting microfilming. Most offices manually microfilm such documents, although for the past few years an automated microfilm machine has been used successfully in the Toronto office.

Until it is microfilmed, there is no backup copy of a document. The following incidents at offices visited illustrate the importance of timely microfilming:

- in one office, three documents were lost prior to microfilming. The solicitors involved had to be contacted to obtain replacement copies; and
- in another office, staff stopped providing documents which had not yet been microfilmed to clients after suspecting that one such document had been altered. They now provide photocopies only of unmicrofilmed documents. However, this was the only office to adopt this practice.

One regional manager recently adopted microfilming backlog standards of less than five days volume for registry documents and 12 days volume for titles documents. Using these as reasonable benchmarks province-wide during our 16 office visits, we found that:

- all five registry-only offices rarely had backlog problems; and
- nine of the eleven offices with land titles operations typically had backlog problems. These ranged from two and one-half weeks' activity to three months' activity, or from a few hundred documents in smaller offices to several thousand in larger offices.

All backlogs observed were in land titles offices, rather than registry operations. This suggests that most backlogs were caused by problem documents rather than staff shortages. Because of the title guarantee, documents accepted for registration in titles must be more thoroughly scrutinized at subsequent abstracting and signing stages, which often identifies deficient documents that need client correction. Since documents were microfilmed in numerical order to facilitate searching on microfilm rolls, documents awaiting correction hold up the microfilming process.

We recommended that:

- management clarify Branch standards for acceptable backlogs;
- offices deal with unacceptable backlogs by a combination of cancelling documents which had not been corrected by a client after reasonable notice; skipping a small number of problem documents, microfilming the backlog, then referencing the skipped documents to later microfilm rolls; and adjusting office workload;
- photocopies be provided to clients who request unmicrofilmed documents. This eliminates any risk of loss or alteration, and is more efficient than the current practice of having staff watch these clients until the documents are returned; and
- additional automated microfilming machines be acquired for offices where volumes warrant. As a recent Branch business case indicated, the Brampton and Newmarket offices would be logical candidates for these machines.

MICROFILM STORAGE CONDITIONS

In addition to on-site storage, master microfilm copies of registered documents, abstract indexes and parcel registers are stored off-site at the Ministry of Government Services Records Centre. Currently there are some 163,000 films stored at the facility.

Microfilm copies had always been important to the Branch as security against lost books and documents. However, the importance of good quality microfilm is increasing because of Branch initiatives to improve efficiency and save storage space.

- Many offices now destroy original documents and rely solely on microfilm.
- Even those offices primarily on a document system are disposing of older records. All pre-1867 documents have been turned over to the Ontario Archives. All 1867-1947 documents are slated for destruction or transfer to local archival repositories.

Management had long recognized that the Ministry of Government Services storage environment does not meet international standards for the long-term storage and preservation of microfilm. A number of groups interested in the preservation of land ownership records, particularly older records, have also expressed concerns. These include heritage groups, historical, genealogical and archaeological societies, and archivists. For example:

- 'Redox blotches', blemishes caused by a virus that spreads if unchecked, were identified in microfilm masters over ten years ago;
- in 1989 a genealogical consultant found deterioration in 13 of 35 randomly selected master microfilm rolls; and
- a 1991 internal committee report indicated that "large collections" of masters examined over the years were damaged due to such problems as major scratches, crushed and decomposing film containers, poor image quality, and chemical stains.

However, no corrective action had been taken. Contributing to the problem were such things as storage of films using elastic bands and cardboard boxes, storage in an environment dominated by aging paper products chemically harmful to film, and the lack of effective control over temperature and humidity.

The Branch intends to use hermetically sealed pouches for all of these films and to use a chemical solution to stop further Redox blotch spreading. We understood that the necessary equipment could be obtained for $20,000.

Our testing of microfilm masters indicated that there had been no significant loss of information from the master microfilms. Nevertheless, we recommended that the 1867-1947 documents planned for disposal should be retained until the master microfilm records have been preserved.

COST EFFECTIVENESS

WRITS OF EXECUTION

Writs of execution are documents filed to enforce a court judgment or order by obtaining possession of a debtor's property. All writs are originally filed in sheriffs' offices, which are administered by the Ministry of the Attorney General. This Ministry has developed an improved, automated writs system and plans to install the system province-wide.

Under current legislation, land registered under the land titles system is bound only by those writs of execution forwarded by a sheriff, at the request of plaintiffs or their solicitors, to a land titles registry office. These offices do not register transfers until a search has been made from their files for outstanding writs against the transferrer. At the 32 offices performing land titles registration:

- about one million searches are done annually on a database of 261,000 writs;
- approximately 15 person-years are devoted to operating the systems; and
- there are 23 computerized systems and 9 manual ones.

3.05

Consolidation of Writs System

In March 1990, a joint task force (Ministries of the Attorney General and Consumer and Commercial Relations) reviewed the writs system to identify ways of reducing duplication and costs and improving client service. Their July 1990 report indicated that consolidating all writ services at the Ministry of the Attorney General would prove cost effective, with possible savings of about $380,000 annually to the Ministry of Consumer and Commercial Relations.

However, there had been no consolidations since the task force report. In addition to Toronto and London, where consolidation efforts were implemented prior to the report, we visited nine other registry offices providing land titles registration and found that:

- for five of the nine offices, the sheriff's office was in the same building, and for the remaining four it was within a short distance. Thus, consolidation would have provided little or no inconvenience to users who needed to search writs. Users were already conducting searches at the sheriff's office for transfers in the registry system;
- in all nine offices, staff manually entered each new, amended or cancelled writ into their automated databases, duplicating the work done at the sheriff's office. There was no network or sharing of software between the sheriff and the land registry office; and
- land registry offices varied in how they handled expiries, renewals and amendments of writs, and the level of detail contained in writ files.

Consolidation would have provided a standardized practice for processing writs. The risk of error would be reduced because the same information would be handled and entered into the system less often.

We were informed that management was working with the Ministry of the Attorney General to consolidate further offices.

PRE-APPROVALS

A number of complex transactions have unique documentation requirements. These include transfers under power of sale, foreclosures, estate and bankruptcy conveyances, and survivorship applications. Documents required for these transactions can be submitted to land registry offices prior to the date of registration to ensure that they are complete and proper. This pre-approval process benefits both the land registry office and the client by enabling a smooth registration on the actual transaction date.

Reduction of Documentation

The pre-approval process, while intended to facilitate registration, may be discouraging diligent document preparation because clients are aware that registry staff will identify any deficiencies at no cost to them. Most high volume offices must commit a significant portion of staff time to handling pre-approvals.

A 1989 Branch report recommended the elimination of much of the documentation currently required for most complex registrations, thereby eliminating the need for them to be pre-approved. In place of the documentation currently filed, a statement of compliance with all relevant legal requirements would be filed by the solicitor involved.

We felt that the approach outlined in that report would improve efficiency and ensure that the legal community takes appropriate responsibility when registering these transactions. The changes would also be consistent with the streamlining of the registration process achieved through the passing of the *Land Registration Reform Act* in 1984.

We were advised that negotiations with the Canadian Bar Association were taking place on this matter.

DOCUMENT RETRIEVAL AND VIEWING

We found that land registry offices varied as to whether they used staff to retrieve documents or a system in which microfilmed documents were available to clients on a self-serve basis.

Only 8 of the 16 offices visited offered a complete self-service option. This is the most cost-efficient method of making registered documents available to users. The self-serve feature may also reduce the number of documents clients currently request to view. Documents being made available only on microfilm significantly reduces the space requirements for the offices.

The use of self-serve microfilm systems should not be limited to registrations under land titles. The Newmarket office was the only office which had all registry documents on self-serve microfilm, and its success demonstrates that clients can manage under this system if adequate equipment is provided.

Reader Printers

One constraint on the ability of registry offices to provide a self-service option is the quality and quantity of reader printers.

Land registry offices use either dry silver or bond paper microfilm reader printer machines. The older dry silver models are inferior to the bond paper machines in that:

- they require more servicing;
- paper costs are about 19 times greater; and
- copies produced are of much poorer quality with respect to clarity and durability.

Of 61 reader printers available to clients in the offices we visited, 22 were dry silver models. Considering the high cost of paper and servicing these dry silver models, we recommended that management consider the feasibility of replacing them. In the interim, the bond paper machines could be allocated among all offices so that as many dry silver models as possible could be used for viewing only.

We also suggested that criteria for new purchases should stress the quality and warranty of equipment, especially given that many remote locations do not have local servicing available, making maintenance more costly and less timely. Responses to the staff questionnaire indicated dissatisfaction with the quantity and quality of equipment purchased for the Branch.

OTHER MATTER

OFFICE INTEGRATIONS

In 1991 the Ministry initiated a program to eliminate 14 of its 65 land registry offices by integrating them with existing offices. Twelve were to be closed, while the remaining two were large offices that would be merged with adjoining offices. The Ministry later dropped plans to close four offices, which were in similar legal positions, after losing a court case on the legality of one of these proposed closures. The remaining ten integrations were completed as scheduled.

These integrations have a number of benefits. With the exception of the Minden and Almonte offices, remaining offices are now located in the same community as the local sheriff, a convenience for registry clients who must perform writ searches. The integrations also more closely tie the areas served by registry offices to county jurisdictions, and the cost of administering the registry program will be reduced.

SAVINGS

In its May 7, 1991 public announcement of the integrations, the Ministry stated: "Ontario taxpayers will save in the neighbourhood of $1 million a year. Also, proposals for capital-cost improvements totalling $8 million over the next few years will be eliminated."

The closures have been controversial in several of the counties involved. Opponents to the plan have questioned the validity of these purported savings. The Legislative Standing Committee on General Government, which held public hearings on the closures in July of 1991, was also concerned about the estimated cost savings.

3.05

We found the $1 million estimate of annual savings to be adequately supported and based on reasonable assumptions. It consisted of an accumulation of detailed calculations of salary, accommodation, and operating expenditure savings based on actual cost experiences in the relevant offices.

Of course, the cancellation of the four closures will reduce the actual savings.

The support for the $8 million capital cost savings was based on projections, Ministry proposals and most recent precedent rather than on committed funds. However, it is unlikely that approval for construction would have been obtained for many of these proposals, particularly given the current environment of restraint. To illustrate:

- the $8 million figure was derived by using the $1 million approximate cost for the recent construction of the Almonte registry office, and assuming these same costs would have been incurred by replacing all 8 of the 14 registry offices that were over 100 years old; and
- three of the four offices now remaining open are over 100 years old, and thus were part of the $8 million calculation. At the time of our audit, there were no plans to update the Ministry's 1992/93 capital project priority listing to include these offices. Rather, minor renovations totalling $38,000 were planned to upgrade these offices to an appropriate level for the foreseeable future.

RESPONSE

The Acting Deputy Minister of Consumer and Commercial Relations responded to our report on August 25:

We are pleased with the contents of the audit because it confirms that the registration process satisfactorily ensures an accurate, reliable, secure and cost-effective land registration system.

INFORMATION SECURITY

BACKLOGS OF DOCUMENTS TO BE MICROFILMED

- *The Branch has established backlog standards for all Land Registry Offices (LROs) through the customer services measures. In addition, they will be included in all managers' performance reviews.*
- *LROs do manage with backlogs as described in the recommendations.*

- *Providing photocopies of unmicrofilmed documents is done in some LROs. However, in some LROs it is less workload when clients can review the documents at or behind the counter with a staff member in attendance.*
- *Automated microfilming machines for some large offices have been considered. The Branch will finalize its approach once a decision on Teranet's automation plans is made.*

MICROFILM STORAGE CONDITIONS

- *The Branch has sought the advice and input of the Archives of Ontario concerning the redox contamination of microfilm now in storage.*
- *The Archives has advised us that chemical treatment of contaminated film is not viable since the process is still in an experimental stage. If the Branch decides to pursue this alternative, we have been advised that additional processing equipment would be required which in turn requires two technicians to operate it. Moreover, this chemical treatment is likely to have significant health and safety issues that would have to be addressed. The Branch will continue to pursue this issue and possible solutions to this problem with the Archives.*
- *The nitrogen foil packaging appears to be the viable solution for newly processed film. The Branch will expend the $20,000 in order to purchase the machine.*
- *The 1867-1947 documents are being transferred to the Provincial Archives and are not being destroyed.*

COST EFFECTIVENESS

WRITS OF EXECUTION

Consolidation of Writs System

The legislation requires that both the Sheriff's and the Land Titles offices maintain and search writs. The Branch has been working with the Ministry of the Attorney General to consolidate this function. A memorandum of understanding has been finalized. This will eventually eliminate the duplication of services.

PRE-APPROVALS

Reduction of Documentation

A standardized pre-approval policy has been developed and has been circulated to all land registry offices. This policy identifies the types of documents and information that are appropriate for pre-approval. It also includes standardized pre-approval forms which will ensure efficient registration of the pre-approved documents when they are subsequently submitted for registration. The policy also enables clients to submit documents remotely via facsimile machines.

As noted, we are working with the Canadian Bar Association to introduce streamlined documentation.

DOCUMENT RETRIEVAL AND VIEWING

We agree with the suggestion that we replace reader printers that use dry silver paper. The Branch has been acquiring bond paper type reader printers as funding permits and older models of dry silver paper reader printers are now being used in small volume offices or as viewers. We will continue to emphasize quality of and need for warranties for equipment we purchase. The high cost of maintenance is of great concern to the Branch.

We also agree that we need to acquire additional reader printers to extend self service to offices where it is not available and to expand it where it is. The Branch is currently preparing an equipment replacement program. This study will identify the ideal equipment configuration for offices of varying sizes, a reasonable life expectancy for the equipment and a replacement/acquisition schedule.

We agree with the comments concerning self-service for document retrieval and have implemented it in both Registry and Land Titles offices where possible. In addition, an equipment replacement program is currently being developed.

OTHER MATTER

3.05 OFFICE INTEGRATIONS

- *We agree that the $8 million dollar capital cost savings were based on projections, Ministry proposals and most recent precedents. The capital savings mentioned were indirect savings and cost avoidance measures only, based on proposals. This was made clear in the original announcement.*
- *The integration of the land registry offices was successful in eliminating the need for these proposals and in achieving the announced projected benefits.*
- *It is correct that the $8 million figure was based on the cost of the recent construction of the Almonte Land Registry Office which opened early in the summer of 1990. Almonte served as the best costing precedent as it is similar in size and configuration to the other eight offices.*

MINISTRY OF THE ENVIRONMENT:

Surface Water Quality Improvement

The Ministry of the Environment is responsible for the quality of water in Ontario's inland lakes, rivers and streams as well as the water near the Ontario shoreline of the Great Lakes. To improve water quality by preventing toxic substances from entering these bodies of water and to clean up polluted areas, the Ministry initiated two programs and established a Watershed Management Section in its Water Resources Branch in the 1986/87 fiscal year.

Our objective was to assess the progress of these three initiatives:

- The Municipal Industrial Strategy for Abatement (MISA), to control toxic discharges into sewers and natural waterways by industry and sewage treatment plants;
- Watershed Management Plans, to control pollution from urban and agricultural run-off into natural waterways; and
- Remedial Action Plans (RAPs), to clean up certain highly polluted areas of the Great Lakes as required by international and federal/provincial agreements.

Our audit included reviews of the MISA regulation development process and of various relevant documents and studies. We also interviewed conservation authorities, municipalities, and staff from the Ministries of the Environment, Natural Resources, Municipal Affairs, and Agriculture and Food. Our audit of RAPs included on-site interviews conducted at three Canadian RAP sites.

CONCLUSIONS AND FINDINGS

The development of all three initiatives has been slow for a variety of reasons. As of June 1992, MISA and RAPs were well behind schedule and no watershed management plans had been implemented.

These reasons included:

- the technical complexity of the problems to be solved;
- the high costs of possible solutions;
- the delay inherent in trying to reach a consensus between such diverse groups as industry, municipalities, farmers and environmentalists; and
- a lack of co-ordination between the three programs.

MUNICIPAL INDUSTRIAL STRATEGY FOR ABATEMENT (MISA)

- The 1986 MISA White Paper projected that by 1989, regulations would be in place to control the discharge of industrial effluents. As of June 1992, no Regulations were in place.

  Contributing significantly to this delay were: the construction of an extensive database of information on effluent quality; a poorly controlled consultation process; and a shift midway through developing regulations from seeking "end of pipe solutions" to preventing pollution at its source.

3.06

- With effluents from 30,000 commercial and industrial businesses and four million households to treat, discharges from municipal sewage systems present the most serious pollution control issue. While the Ministry has proposed a municipal model sewer use by-law to control the discharge of toxic substances into sewer systems, the associated costs and need for consistent enforcement among all municipalities will pose a significant challenge.
- A Ministry study estimated the cost of upgrading sewage treatment plants to minimize harmful discharges to be $3 billion. At least half the municipalities involved cannot afford to pay their share for these improvements, but the Ministry has neither prioritized the improvements nor made plans to assist municipalities in paying for them.

WATERSHED MANAGEMENT PLANS

- A draft report containing guidelines to protect watershed areas from harmful development was issued in January 1992. However, the Ministry had not addressed the key issues of how to finance the environmental and land use studies the guidelines require or how to resolve conflicts over land use which will inevitably occur among watershed users.
- Nitrates and phosphorous from agricultural run-off pose a significant pollution problem. A program to Clean Up Rural Beaches (CURB) was established, but the Ministry had no programs designed specifically to improve other bodies of water in rural areas.

REMEDIAL ACTION PLANS (RAPS)

- Most RAP Plans were well behind schedule. A major reason for this delay is that the *Canada-Ontario Agreement* does not specify exactly what Ontario's role in this process is and, consequently, the Ministry has made no clear statement of priorities nor any long-term financial commitment to the RAP program.

BACKGROUND

The Ministry's current guidelines for surface water quality have been in place since 1984. Water quality is continuously monitored for a minimum of 26 substances and conditions through 726 water sampling stations on 400 bodies of water throughout the province. Over the last ten years, while some aspects of water quality have shown improvement, others have deteriorated. At the time of our audit, Ministry data showed that:

- over 50 per cent of southern Ontario monitoring stations reported nitrate and phosphorous concentrations exceeding guidelines despite efforts under the Canada Phosphorous Management Plan; and
- monitoring stations also frequently reported unacceptable levels of heavy metals such as copper, iron and highly toxic organic substances such as PCBs.

In addition, data collected by industries and verified by the Ministry indicated that:

- several industries continued to discharge contaminants at rates that were sometimes hundreds of times higher than provincial guidelines allow; and
- persistent toxic substances (dangerous materials that accumulate in the environment) continued to appear in effluents despite persuasive evidence that these substances are too dangerous to the biosphere and to humans to permit their release in any quantity.

The job of protecting and improving water quality is complex. Everyone has both a stake in it and an impact on it. Although the primary responsibility for water quality

lies with the Ministry, the responsibility for controlling pollutants before they reach the water is shared with other provincial ministries, municipalities, private corporations and individual citizens. The activities of all these stakeholders fall under the jurisdiction of numerous pieces of legislation which makes the co-ordination of water quality improvement by the Ministry all the more difficult.

COMMENTARY

MISA

Currently, all industries and sewage treatment plants must receive approval from the Ministry before they begin discharging effluents into surface water. In effect, each plant is regulated on an "as needed" basis. This system has resulted in a complex patchwork of regulations which are difficult to monitor and which can vary even between plants that use similar technologies.

The Municipal Industrial Strategy for Abatement (MISA) was introduced in a White Paper in 1986 in an attempt to remedy this situation. Its primary goal is to prevent toxic substances from municipal and industrial effluents from entering Ontario's surface water by formulating limit regulations to be enacted under the *Environmental Protection Act*. These regulations would apply uniformly throughout specific industrial sectors. The Ministry, in consultation with various stakeholders and interest groups, was to develop these regulations by 1989.

Both industrial plants and sewage treatment facilities discharge effluents directly into surface water. However, since industrial plants are owned by companies whereas most major sewage treatment plants are owned and operated by municipalities, the Ministry divided the regulation development process into two distinct components. MISA-Industrial was to develop regulations for industries which discharge effluents directly into natural waterways. MISA-Municipal was to develop regulations for sewage treatment plants and for industries discharging effluents into municipal sewers.

At the time of our audit, approximately 250 Ministry staff were working on MISA projects and, as of March 31, 1992, MISA had cost approximately $60 million.

MISA-INDUSTRIAL

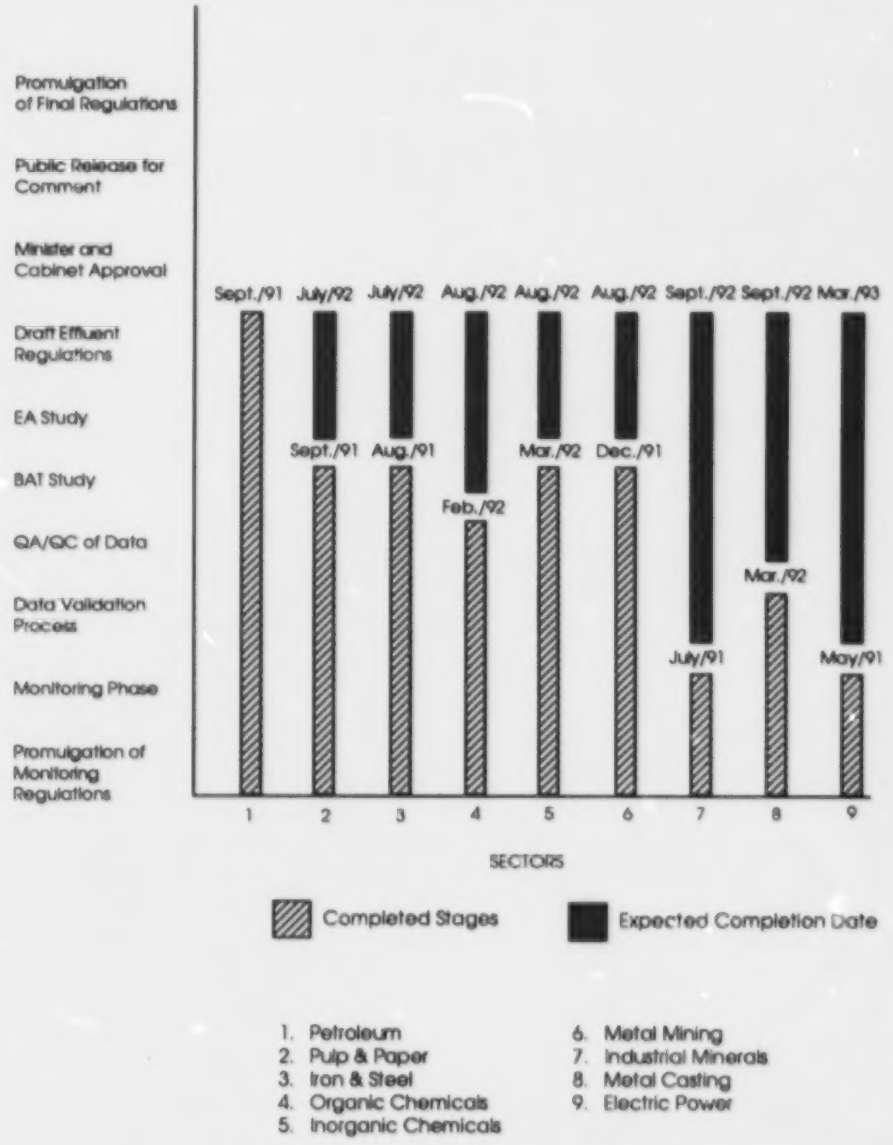
There are approximately 300 direct-dischargers in Ontario. Of those, 200 belong to one of the nine industrial sectors listed below, which the Ministry initially targeted for effluent control (the remaining 100 belong to other, smaller industrial sectors which the Ministry plans to address later):

- petroleum;
- electric power generation;
- mining;
- metal casting;
- industrial minerals;
- organic chemicals;
- inorganic chemicals;
- pulp and paper; and
- iron and steel.

Limit regulations would require these plants to meet standards by using the best available technology which is economically achievable. While some progress had been made (see chart next page), no limit regulations are yet in place. The Ministry estimated that draft regulations would be ready in 1993 at the earliest. After those regulations have become law, industry will have a grace period of three years before compliance becomes mandatory. It should be noted, however, that some industries have already made voluntary improvements in effluent monitoring and control.

3.06

MISA Scheduling of Industrial Sectors as at June 30, 1992



1. Petroleum
2. Pulp & Paper
3. Iron & Steel
4. Organic Chemicals
5. Inorganic Chemicals
6. Metal Mining
7. Industrial Minerals
8. Metal Casting
9. Electric Power

Extensive Database

To develop limit regulations, the Ministry developed an elaborate seven-step process of information gathering, analysis and consultation. The Ministry's first step was to gather information about the substances actually being discharged. To do this, the Ministry, in consultation with industry, developed monitoring regulations which required industries in each sector, at their own expense, to collect samples of their

effluents and analyze them for the presence of approximately 150 substances.

Samples were collected and analyzed for a year in order to detect seasonal changes. This testing resulted in approximately two million separate results which were transmitted to the Ministry and entered into a database. Most sample analyses from each sector had been received by August 1991. The Ministry then spent an additional six to eight months validating the data for accuracy and reliability.

This undertaking was both technically and administratively complex. Given its requirements for planning, training, and problem solving, in addition to the sheer volume of data to be generated and recorded, it is not surprising that the first set of monitoring regulations came into effect two years behind schedule. The final set came into effect on August 1, 1990, well after the limit regulations should have been in place.

The Ministry now has a unique and extensive database on effluent qualities in Ontario. Currently, it is probably the most comprehensive and up-to-date database of its kind in North America. However, there are some limitations to its usefulness for the development of regulations.

So far, the data collected have generally served to confirm what was previously known or assumed about the effluents of the various industrial sectors. Because industries know what materials and processes they use, they already had a well-informed idea of what toxic substances were in their effluents without testing. Further, the Ministry could have relied on information about industrial effluents already gathered by other agencies such as the US Environmental Protection Agency.

Of the 150 or so substances for which effluents were tested, only 5 to 15 of the most dangerous of these will ultimately be regulated, and their identities were generally known prior to testing. If information was required to determine the quantities or frequencies of their presence in effluents, that information could have been obtained by testing only for those substances, which would have expedited the whole process.

In addition, the link between the information in the database and the eventual limit regulations is weakened by the necessity for those regulations to be compatible with the best available technology (BAT) which is economically feasible. Since the regulations can only require what is technically possible, it might have been more efficient to have used the determination of BAT as a starting point. For most sectors, waiting to determine BAT until data collection was completed has further delayed the whole process. As well, the effluent database may soon become irrelevant for the purposes of setting limit regulations if plans are not made to keep it current.

Finally, the MISA Advisory Committee, a committee of outside experts which advises the Minister on MISA matters, recommended that limit regulations be harmonized with those of neighbouring jurisdictions. In early 1992, the federal government regulated the effluents of pulp and paper plants. If Ontario enacts regulations more stringent than the federal ones, these will be out of "harmony" with those in neighbouring provinces. On the other hand, if Ontario patterns its regulations after those of the federal government, effluent testing and analysis for that sector will have been unnecessary.

The same situation also applies in the case of US regulations, again calling into question the need for such extensive research. In fact, for MISA-Municipal, the Ministry decided to forego the construction of a similar database and to adapt regulations originally formulated in the US instead.

Managing the Consultation Process

It was necessary for the Ministry to consult with industry, environmental groups and other levels of government to formulate effective and realistic limit regulations. The consultative process was to ensure industry's co-operation and its future compliance with limit regulations. The Ministry also hoped to avoid the costly litigation that could result if any industrial sectors felt the regulations were unfair.

3.06

However, the Ministry initially underestimated the complexity of the consultation process. As well, a strong emphasis on achieving consensus both within and outside the Ministry added considerably to the time required. Our interviews with Ministry officials revealed that almost all decisions, even minor ones, were resolved in committee meetings. In some instances the consultative process foundered where consensus could not be reached. Because so many parties were involved in various consultations, much time was inevitably required to cancel and reschedule meetings to allow key players to attend. In some cases meetings were held despite the fact that industry participants were in agreement with the Ministry and felt that the meetings were not necessary.

Considering the length of time already invested in consultation, it is doubtful whether any further discussion in areas where there is strong dissension will be useful. Future discussions, particularly those about the costs of implementing limit regulations, are likely to be even more difficult than the ones held to date. The Ministry must be willing to make decisions where complete unanimity is lacking.

Shift in Emphasis

In 1990, the Ministry endorsed the concepts of zero discharge of persistent toxic substances, pollution prevention and a comprehensive approach to environmental management. These concepts stemmed from the belief that technology based on an "end of pipe" treatment of toxic effluents would not be sufficient to achieve the original MISA goal of virtual elimination of persistent toxic substances from Ontario's waterways.

To accommodate this new direction, the Ministry must shift away from a technology-driven program to treat toxic substances after they are generated and move toward one that encourages dischargers to find alternative production processes and chemicals, thereby preventing the formation and discharge of dangerous substances during the production process.

It is not currently evident how these two approaches will be blended. The new approach may make some of the work already done toward developing limit regulations unnecessary. This change in approach has required additional consultation and has significantly delayed the regulation development process.

MISA-MUNICIPAL

There are approximately 30,000 commercial and industrial establishments discharging effluents into municipal sewer systems. Of these, it is estimated that 12,000 are discharging some form of toxic substance into the sewers. These substances together with domestic waste from over four million households make the effluent from sewage treatment plants the most serious polluter of surface water in the province.

The MISA strategy for municipal sewage treatment plants is twofold:

- to prevent toxic contaminants from being discharged into municipal sewers; and
- to upgrade the sewage treatment plants where necessary, to ensure that their effluents are free from toxic materials.

The MISA White Paper stated in a general way that these goals would be achieved by 1989, but no specific schedules were ever

set for the municipal sector. Instead, the whole program has become mired in difficulties which the Ministry has not yet devised ways of overcoming.

Regulating Sewer Use

Most municipalities have sewer use by-laws to control waste discharges into their sewer systems, but these by-laws tend to be weak and unenforced. There are no provincial regulations to ensure that municipalities enforce their by-laws. This is in contrast to the situation in the United States, where the federal authority, the Environmental Protection Agency, is in a position to charge a municipality if it does not follow its guidelines.

The Ministry originally intended to use the same strategy it was using with MISA-Industrial to formulate regulations controlling substances discharged into the sewer system. After consultation with municipalities, it would introduce monitoring regulations requiring municipalities to test and analyze sewer plant effluents. Based on that information and with further consultation, a provincial sewer use regulation for all municipalities would be formulated and enacted.

Consultation and communication between the Ministry and municipalities was to have been a key element in this process. However, our interviews with stakeholders revealed that this ran into difficulties at the outset with uncertainties about how committees should be composed and who would have authority to make decisions. After the initial contacts, there were very few meetings between the Ministry and municipalities and the whole process stalled.

Model Sewer Use By-law and Demonstration Project

Based on the recommendations from various stakeholders, the Ministry halted the development of monitoring regulations in 1989 because of its estimated cost of $300 to $500 million. Instead, the Ministry proposed that municipalities voluntarily adopt a model sewer use by-law until provincial regulations were in place. This proposed by-law was based on a US model and specified limits for a variety of toxic substances discharged into sanitary as well as storm sewers. It was expected that municipalities would also develop local effluent limits based on provincial water quality guidelines, taking into consideration the best available technology that was cost effective for treating effluents. These local limits would have to be at least as stringent as those proposed in the Ministry's model by-law.

In 1989, the Ministry recruited five municipalities to conduct demonstration projects in an effort to convince other municipalities that adoption of the model by-law was feasible.

As of June 1992, 44 of approximately 300 municipalities large enough to make implementation of the model by-law practical had adopted it and another 20 were in the process of doing so. None had developed local limits for substances. There was no timetable for the adoption of the model by-law by the rest of the municipalities.

Impediments to Implementation

One major impediment to the adoption of the proposed sewer use by-law is the issue of cost sharing between the Ministry and municipalities. According to the Ministry, the cost to municipalities for the enforcement program alone would be about $50 million for the first year and $40 million per year thereafter. Some municipalities believe it would be even more.

In addition to the costs, smaller municipalities fear they will be unable to recruit and train an adequate number of technically qualified staff. Some fear they may not have access to appropriate laboratory facilities. So far, the Ministry has taken few

steps to address these problems, but until they are dealt with, it is unlikely that municipalities will support the Ministry's efforts to introduce a regulation.

Also, municipalities may be reluctant to enforce a by-law because they believe that if they do, affected industries and businesses would simply move to other, less strict jurisdictions. For example, one major industrial centre has never laid charges under its by-law despite repeated violations. We understand that the proposed sewer use regulations would permit the Ministry to charge municipalities that failed to implement an enforcement program.

3.06

Another impediment is the lack of adequate alternatives for disposing of toxic waste. Realistically, many small industrial plants will not be in a position to treat their waste on site and will need proper disposal facilities.

According to the Minister's MISA Advisory Committee, without additional waste disposal facilities for hazardous substances, it will be difficult to achieve the goal of virtual elimination of toxic substances from surface water. In Ontario there is currently only one major facility where toxic waste can be effectively treated, and it is now operating near capacity. The construction of the Ontario Waste Management Corporation's proposed facility is still some time off.

Despite these difficulties, it is important that regulations controlling municipal discharges be in place by the time MISA Industrial regulations become enforceable. Otherwise, it is possible that some smaller industrial plants could decide to discharge their effluents into sewers rather than directly into surface water to avoid industrial regulations.

Upgrading Sewage Treatment Plants

In 1990, 25 per cent of sewage treatment plants did not comply with provincial guidelines for one or more substances such as phosphorus, suspended solids and biological oxygen demand. In 1987 a study indicated that nearly half the sewage plants in the province did not meet the standards espoused by the US Environmental Protection Agency. No major improvements have been undertaken since that time.

Of the 412 sewage treatment plants operating across Ontario, 28 are of the primary treatment type, which are the least effective in treating waste. These 28 plants are also responsible for 40 per cent of all conventional waste discharged by sewage treatment plants. The Ministry believes that upgrading these plants to the secondary stage would have the biggest impact on reducing toxic discharges.

The Ministry estimated the total cost of upgrading all plants (outside of Metropolitan Toronto) to render their effluent non-toxic to be approximately $3 billion, one third of which would be paid by the Ministry under current funding arrangements with municipalities.

A study conducted by the Ministry of Municipal Affairs in 1988 concluded that almost half of the municipalities could not afford to pay for the upgrading of their sewage treatment plants. Because the Ministry has been unable to determine how to finance and implement such a program, its future remains uncertain.

Given that pollution from sewage treatment plants is believed to be the single largest source of water pollution, progress in reducing or eliminating their toxic effluents is vital to achieving the Ministry's water quality objectives.

WATERSHED MANAGEMENT PLANS

Ontario is divided into watershed areas—144 areas drained by a river and its tributaries. Conservation authorities under the Minister of Natural Resources are responsible for protecting water quality in watershed areas, but they have limited authority to enforce protective programs or guidelines.

Land use affects both the type of pollution present in watershed runoffs and the measures necessary to prevent it from entering surface water. Pollutants in runoff from urban areas include oil and grease, heavy metals, man-made toxic substances, nutrients and bacteria. The principal pollutants from agricultural areas are fertilizers, pesticides and manure.

URBAN WATERSHED MANAGEMENT

It is generally accepted that the emphasis should be on prevention of surface water pollution rather than its remediation, which is often prohibitively expensive. For example, studies have estimated that it could cost $1 billion each to restore the Don and Humber Rivers in Toronto to a point that would make them safe for swimming.

Unfortunately, land use planning processes have not been adequate to protect the environment and, as a result, some development has caused degradation of water quality, particularly near urban areas. For example:

- Wetland near urban areas is being lost to development. This land is essential for maintaining the quality of water in streams because it is a natural filter for pollutants as well as a habitat for many species of plants and animals, yet there is currently no means to ensure its protection. Since more than 70 per cent of all wetland in southern Ontario has already been lost, primarily to agriculture, it is especially important to preserve what remains.
- Poor storm water management is a common problem in developed areas. Rain water sweeps pollutants such as oil, heavy metals and soil into storm sewers which are then discharged untreated into streams, rivers and lakes. The Ministry issued guidelines in June 1991 to help municipalities improve their storm water management practices and has provided some financial support for studies and measures to control storm water overflow.
- Improper dumping of excavated soil and other materials into lakes, streams and rivers pollutes those waterways and the sediments below. In June, 1992, the Ministry issued guidelines for disposing of such material.

Sub-watershed Planning Framework

The Ministries of the Environment and Natural Resources, with input from the Ministry of Municipal Affairs, have developed a framework to incorporate environmental guidelines into the land use planning process. In January 1992 a draft technical document entitled *Sub-watershed Planning* was circulated to several interested parties for their consideration.

The document proposed that local conservation authorities oversee the formulation and implementation of sub-watershed plans for areas to be developed. These plans would be based on ecological studies of the areas in question and would contain guidelines to protect the environment during and after development.

Financing

Generally, the completion of a sub-watershed plan costs from $100,000 to $250,000. Financing is essential because without it the studies needed to formulate the plan cannot be done.

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The sub-watershed planning framework anticipated that developers would finance the majority of the future studies, but it is unlikely this will happen. The Urban Development Institute has stated: "The development industry will never advance funds of the magnitude involved in sub-watershed planning without having achieved some prior development rights on their lands. The very nature of the sub-watershed study would extend beyond the urban boundary into areas that are not necessarily owned by developers. Who is to pay for the analysis on these lands?"

Resolving Conflict

Developers, land owners, the public, provincial ministries, conservation authorities and municipalities all have their own goals and objectives for land to be developed and in many instances, these will conflict. Without authority to impose its plan, it is difficult to see how a conservation authority can avoid outcomes like the one illustrated below.

A conservation authority prepared a sub-watershed plan which prohibited the building of major municipal sanitary or storm sewers on wetlands or their buffers. The municipality involved strongly objected, stating "Of primary importance... is the failure of the conservation authority to recognize the competing interest of the municipality in the watershed... In fact, certain areas of the city would be rendered virtually useless for development." The municipality argued that sewers could be constructed in such areas without causing permanent or long-term harm. Subsequently, the municipality appeared to ignore the sub-watershed plan and continued to plan land use as it had in the past.

Currently, the *Planning Act* does not require municipalities to abide by the recommendations of a watershed plan. In the absence of voluntary compliance, the only way that the Ministries of the Environment or Natural Resources can exercise some authority is by raising objections and forcing a Municipal Board Hearing when an Official Plan comes up for review at the Ministry of Municipal Affairs. This can be a time consuming and costly exercise.

RURAL WATERSHED MANAGEMENT

In many parts of the province concentrations of phosphorus and nitrates in surface water are much higher than the provincial water quality objectives permit. Ministry data shows that although concentrations of phosphorus have declined slightly, the concentrations of nitrates have increased significantly over the last ten years. Present agricultural practices are the cause of this contamination.

The Ministry of Agriculture and Food administers programs to help farmers improve agricultural practices. Participation in these programs is voluntary and farmers who participate are eligible for grants for various projects such as pesticide or manure handling facilities. It is not the responsibility of the Ministry of Agriculture and Food to keep track of the resulting improvement in water quality, if any, although it expects that water quality will improve in the long run.

The only program administered by the Ministry to improve the water quality in rural watershed areas is the Clean Up Rural Beaches (CURB) program initiated in 1986. However, funds were not made available for clean-up plans until 1991, when $57 million was allocated for the clean-up process over the next ten years. Also, the majority of water bodies polluted by agricultural run-off are not designated as beaches and therefore do not qualify for CURB grants.

REMEDIAL ACTION PLANS

The purpose of the Canadian-US International Joint Commission is to resolve environmental problems occurring along the Great Lakes between Canada and the United States. In 1985 the Commission's Water Quality Board identified 42 highly polluted areas ("areas of concern") around the Great Lakes and formally recommended a Remedial Action Plan (RAP) process to clean them up. Of the 42 areas targeted for remediation, 17 are located in Ontario; 12 are in Canadian waters and 5 are along river systems shared with the United States.

In Canada, the federal and Ontario governments work together to meet the obligations of the Great Lakes Water Quality Agreement through a partnership called the *Canada-Ontario Agreement*.

Each area of concern has a RAP team which includes federal, provincial, municipal and other representatives under the direction of a steering committee. The RAP process was designed to encourage input from municipalities, industries, aboriginal peoples, universities and the general public.

RAP SCHEDULES

RAPs are divided into three stages: in the first stage, the nature and source of the site's pollution is identified; in the second, remedial and regulatory measures are selected; and in the third, the site is monitored to confirm that beneficial use has been restored. At the completion of each stage, the committee is to submit documentation to the International Joint Commission for evaluation and comment.

In the 1988 biennial report of the International Joint Commission, target dates for the submission of RAP reports were set: first stage reports were to be submitted by the end of 1989 and second stage reports by the end of 1990. As of June 1992, only 13 of the 17 Ontario stage one reports had been submitted, only three within six months of the target date. Of the 13, 11 have been reviewed by the International Joint Commission. Each of those 11 sites can proceed to the second stage of the process, although in each case the Commission suggested areas where the stage one report could be more thorough. Only two RAP teams had reached the point of circulating a draft stage two report for public consultation.

To some extent, these delays can be attributed to the complexity of the RAP process itself. It is difficult and time-consuming to achieve consensus among so many different interest groups. Public participation, though considered vital and strongly supported by RAP committees, has contributed to a slower pace. RAPs for sites shared by Canada and the US must also deal with political and regulatory differences between the two countries.

Nevertheless, it is evident that insufficient direction and support from the Ministry is also a factor in the slowness of RAP progress.

FEDERAL-PROVINCIAL ROLES

One reason for the Ministry's lack of commitment may be uncertainty about just what its role should be. Although the *Canada-Ontario Agreement* states that provincial and federal governments share responsibility for RAPs, the agreement is unclear as to just how that responsibility is to be divided. In fact, the agreement expired on March 31, 1991 and has not yet been renewed. We were advised that the negotiation process has been difficult on the issue of specific financial responsibility for implementing RAP projects.

The Canadian approach contrasts sharply with the one taken by the United States. There, the RAP process has been given the force of federal law by the *Great Lakes Critical Programs Act* of 1990. That act sets

both a time schedule and a process for developing US RAPs. A federal/state technical steering committee has been established to propose uniform water quality standards for the Great Lakes. A guidance document is expected in 1992; all eight Great Lakes states will then have two years to standardize their regulations. It should be noted, however, that as of June 1992, the progress of US RAPs through the first two stages of the RAP process is similar to that of their Canadian counterparts.

3.06

RAP TEAM CO-ORDINATORS

In most cases the Ministry has assigned relatively junior level staff as RAP co-ordinators. In some cases, co-ordinators are part-time workers.

Junior status, combined with a lack of appropriate training, has forced RAP co-ordinators to learn skills and methods on their own. This independent learning together with a high rate of staff turnover has delayed the RAP process.

CO-ORDINATION WITH RELATED PROGRAMS

RAPs are site specific and the problems at each RAP site are the result of unique combinations of land use and geography. However, in a more general sense, each site is contaminated by pollutants from sources which are also being addressed by MISA and the watershed management planning process. While there is an obvious need for co-ordination between RAP teams and MISA and watershed management planning, RAP teams remain ill-informed of developments in these other programs. There are no MISA representatives on RAP teams or public advisory committees to provide useful insight into pertinent issues. Similarly, there is no formal mechanism for communication between RAP teams and personnel involved in watershed management developments.

LONG-TERM FINANCING

Provincial funds budgeted specifically for the RAP development process have averaged about $2 million per fiscal year since the program began. Federal funding has been even less. While RAP activities to date have been relatively inexpensive since most RAP teams have only recently completed their stage one reports, future efforts will require significant funding.

The total cost for remedial activities in both the public and private sectors has been estimated at $6 billion. Sewage treatment plant upgrades and urban run-off controls represent about $3 billion of that amount, excluding most of the cost for upgrading Metro Toronto plants. Under current funding arrangements, the Ministry's share of that $3 billion would be $1 billion. Without significant increases in provincial and federal funding, especially for implementing MISA proposals for upgrading sewage treatment plants, it is unlikely that communities will be in a position to realize RAP goals.

RESPONSE

The Deputy Minister of the Environment responded to our report on September 15:

MISA

MISA-INDUSTRIAL

Delays in development of the MISA Industrial regulations are attributable to several factors: the technical requirements for defensible regulations; the emphasis on consultation within and outside of government and industry; and the compounding impact of an economic recession.

Extensive Database

The data collected serve to confirm what was generally known, but also provide insight into the nature of toxic compounds that were present in effluents. This database is far more comprehensive than is available in other jurisdictions. The Ministry would have been unable to regulate toxics for the most part had it relied on the information available.

Regulations could not be based solely on the US industrial experience without risking court challenges from industries.

In many cases, the substances which are being regulated were not known prior to testing. Also, the regulations will not be restricted to the most dangerous substances.

The parameters selected for control were determined on the basis of technical and economic factors. Although this process has limited the number of parameters regulated to a range of 10 to 15, the regulations will result in control of other toxic substances at the same time.

BAT studies were commenced in most cases while the data were being collected. It was necessary, however, to provide the consultants with approximately six months of data on the substances present so that the areas of search could be specified. The MISA program incorporates pollution prevention principles, which requires companies to look beyond end of pipe technology and consider fundamental changes in plant processes. The strong database is essential to point out the chemicals of concern for phasing out.

Managing the Consultation Process

Consultation with stakeholders is one of the main features of the MISA program that has greatly assisted in the regulatory process. The consultation process was agreed upon when the MISA program was formulated and was controlled and implemented accordingly.

MISA-MUNICIPAL

MISA Municipal has two complementary programs. The Sewer Use program is necessary for control of toxics from those industries discharging to municipal sewage treatment plants. The upgrading of primary sewage treatment plants is necessary primarily to control the discharge of conventional pollutants such as suspended solids, phosphorous and biochemical oxygen demand. However, some toxics also will be removed.

With respect to sewer use, the Ministry has implemented an extensive training program to prepare municipalities for implementation. Much of the consideration given to this program centres around assisting municipalities by minimizing cost impacts.

The large expenditures required for upgrading sewage treatment plants have been the primary reason for delays. Several studies have been undertaken to find ways to reduce costs. Discussions are ongoing within the Ministry to arrive at less costly options for delivering this program.

Regulating Sewer Use

The Ministry has been working with municipalities on program development. Components of the program include: demonstration projects on pollution prevention; best management practices and municipal enforcement; and training of municipal officers.

The 44 municipalities which have adopted the bylaw represent 58 per cent of the population of Ontario. The additional 20 municipalities which are in the process of adopting the bylaw represent 13 per cent of the population.

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The program is in the process of being developed. Cost estimates discussed by the Auditor refer to one of many possible implementation options. The Ministry is presently scoping the options to address various concerns including those of cost.

With respect to training of Municipal Enforcement Officers, the Ministry has, over the past four years, developed five training courses at a cost of $200,000. Forty to 100 Municipal Inspectors have attended the different courses. The Ministry has funded 50 per cent of the attendant costs, approximately $200,000.

Cost estimates used in the program are based on costs of analyses at commercial laboratories. All municipalities have access to a commercial laboratory.

Proposed options in the Sewer Use Program include mechanisms such as pollution prevention and "Best Management Practices". These practices are known to reduce toxic waste generation.

The question of the capacity for disposal of toxic waste at existing facilities and the need for the (OWMC) facility is being addressed through the independent ongoing Environmental Assessment Board Hearing.

Upgrading Sewage Treatment Plants

The study further showed that the magnitude of acute and chronic toxicity in sewage treatment plant (STP) effluent ranges from "low" to "moderate". In most instances, the effluent would be non-toxic after an initial mixing at the discharge points.

Presently, four of the primary STPs are under construction and five are at various stages of planning to be upgraded to secondary treatment. The Ottawa plant is the largest primary STP in Ontario. Total pollution loadings from the 418 STPs will be reduced by 11 per cent (equivalent to 23 tonnes per day) and contributions from the remaining primary STPs will be reduced to 22 per cent when upgrading of the Ottawa plant is completed in 1993.

The Ministry is investigating "low cost" alternatives to the conventional pollution control measures that have led to the $3 billion estimate.

WATERSHED MANAGEMENT PLANS

The Ministry has found that there are other means of protecting the environment. In partnership with other agencies, the Ministry has used education, incentives and "encouragement" to positive effect. This is consistent with current government initiatives emphasizing partnerships and disentanglement.

The Ministry has found that inadequacies in background information affect environmental decision making. The watershed management processes are intended to alleviate those inadequacies.

Vast amounts of information have been compiled by government agencies for the purposes of wetlands protection. One notable system is the wetlands classification system which was developed by the Ministry of Natural Resources.

The Ministries of the Environment and Natural Resources have made effective use of the information which is available to assure protection of the environment through programs based on education and encouragement.

URBAN WATERSHED MANAGEMENT

Since 1985, the Ministry has been funding municipal pollution control planning studies and has provided capital monies for municipal storm water treatment and combined sewer overflow (CSO) abatement measures through the Beaches Program. Expenditures to date are in the order of $20 million.

OMB hearings are not the only means of protecting the environment. This Ministry and the Ministry of Natural Resources have been working to provide accurate, adequate background information to assist in land use decision making, persuasion and education on the importance and appropriateness of good environmental practice.

The Planning Act *and any of the policy statements issued under the* Planning Act *also lack funding mechanisms.*

Watershed plans provide the basis for making land use decisions which under the Planning Act *are a municipal responsibility. A wide variety of mechanisms are provided in the* Planning Act *for the resolution of conflicts at that level.*

RURAL WATERSHED MANAGEMENT

The criteria for CURBS funding restrict the program to initiatives which will improve beaches.

REMEDIAL ACTION PLANS

The RAPS program has achieved a significant number of positive results in terms of the scientific work and remediation to date, the strong public involvement and community support that has been generated and the close associations that the Ministry has established with its sister ministries, municipalities and the public.

Significant environmental improvement already has occurred as a result of the RAP program. RAP principles and goals have been adopted by several municipalities for incorporation into official municipal plans and local land use planning (Collingwood, Bay of Quinte, Hamilton, Severn Sound).

As well, pollution abatement and clean-up efforts in Areas of Concern have received significantly higher attention, and public involvement and support since the RAP program was started. Municipalities in such areas as Collingwood, Bay of Quinte and Severn Sound are strong proponents of the RAPs and have taken the lead in generating support for environmental protection and clean-up.

RAP SCHEDULES

While it is true that RAPs implementation schedules are currently not defined, such scheduling is to be developed once the Stage 2 reports have been submitted to the governments.

CO-ORDINATION WITH RELATED PROGRAMS

MISA is predicated on end-of-the-pipe control of toxics. The RAPs program does not duplicate MISA but has been structured to build on the MISA regulations which will provide the minimum requirements for effluent control.

Where watershed planning studies exist, such as the Toronto Area Watershed Management Study (TAWS), these have been merged with the RAP program.

3.06

There is no formal mechanism for communication between RAP Teams and personnel involved in MISA or watershed management development; however, strong liaisons have existed all along with staff responsible for the development of municipal and agricultural watershed management policies. Senior staff, including MISA designated staff, meet on an as-required basis to share insights on a wide range of water issues, including watershed management and MISA initiatives.

LONG-TERM FINANCING

Between 1986 and 1992, the Ministry spent approximately $12 million for the development of RAPS. In 1991/92, the Ministry allocated $0.5 million from CLEANSWEEP funds to support RAPS implementation measures. In 1992/93, $3.5 million was allocated from jobsOntario funds to RAP areas to implement municipal remedial measures. Annually, approximately $30 to $40 million of Ministry Capital Grants is provided to support municipal sewage treatment plant maintenance and upgrades in RAP areas.

MINISTRY OF GOVERNMENT SERVICES:

Corporate Payroll System

In 1983, the Ministry of Government Services began working on a Corporate Human Resources Information System (CHRIS) to integrate existing payroll and attendance applications and provide additional human resources management functions at an estimated approved cost of $4.9 million.

The Ministry initially felt that the desired results could be achieved by changing existing applications, and made a number of enhancements between 1983 and 1987. By 1987, the project team determined that existing applications could not support the integrated human resources functions. As a result, approval was given for a completely new integrated system for payroll and human resources with a new budget of $13.7 million.

However, by 1989 this attempt proved unsuccessful and the project was scaled down to provide simplified and standardized payroll and pension systems only at an estimated additional cost of $16 million.

Since then, the project has progressed more rapidly. The Ministry appointed a senior executive as corporate sponsor to represent all clients. This approach reduced the time and effort required to get approval from users when making decisions.

By September 1991, the Ministry had completed the pension benefits disbursement component of the application (CORPEN). This system is designed to process payroll for over 35,000 pensioners managed by the Public Service Pension Board and 300 pensioners paid by the Ministry. In mid-September, the Ministry converted the 300 pensions they administer from PENPAY to CORPEN.

The second component of the application, scheduled for full operation by the fall of 1992, will process the payroll for approximately 100,000 public servants (CORPAY). The final completion of CORPAY with such additional features as payroll for contract employees and facilities for on-line pay cheque calculations, has been deferred until this component is operational.

From 1984 to mid 1991, approximately $32 million was spent on these initiatives.

Our audit focused on the managerial planning and control over the development and acquisition of the CORPAY and CORPEN components. In addition, we examined management controls for payroll and benefits processing with an emphasis on automated controls designed to safeguard the data.

The objectives of our audit were to assess whether:

- the business case sufficiently proved that the selected solution would be the most workable and cost-effective choice from among the alternatives; and
- system resources were adequately secured from unauthorized access and changes or unexpected interruptions.

We obtained information through interviews, observation and the review of available documentation.

CONCLUSIONS AND FINDINGS

JUSTIFICATION

The Ministry did not prove that the planned payroll application would be the most workable and cost-effective choice from among existing and alternative solutions. In particular, we noted that:

- alternatives from the private sector and other governments were not sufficiently analyzed;
- the expected benefits from the application will not exceed the costs over the projected life of the application; and
- the new payroll system will duplicate some existing systems that must still be kept.

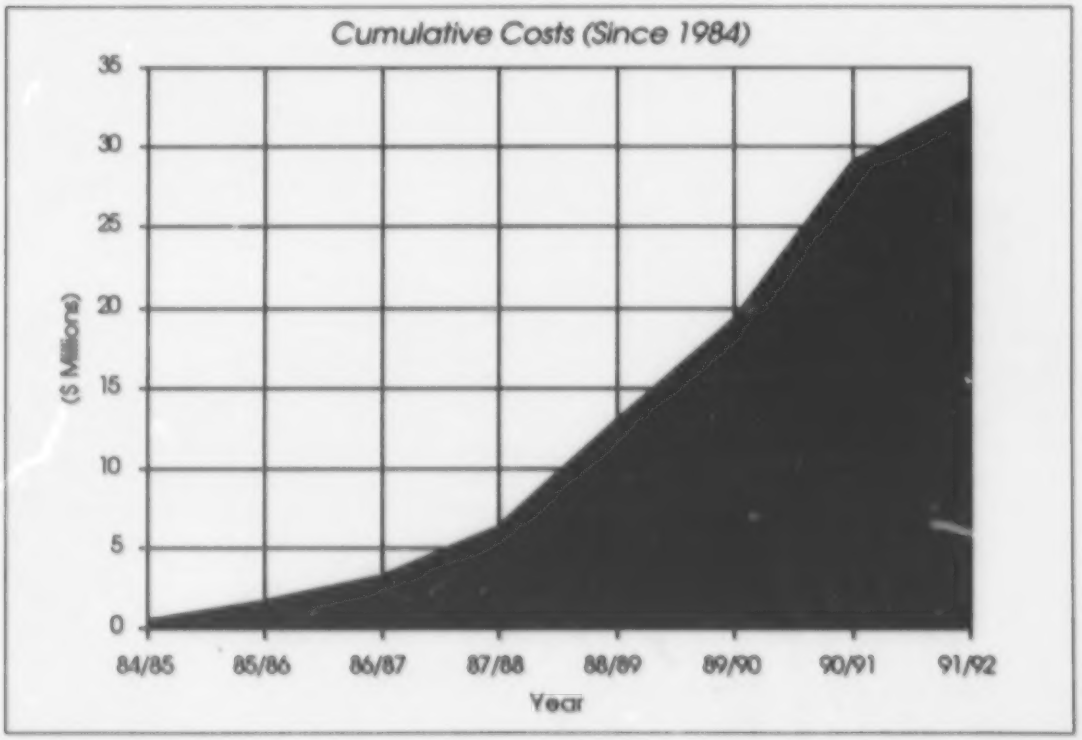
SECURITY

Data and software were not adequately secured from unauthorized access and changes or unexpected interruptions. For example, we found that:

- payroll and other data were not protected from unauthorized access and changes;
- the confidentiality of the payroll information for retired government employees was compromised during testing; and
- a tested business resumption plan for the corporate payroll had not been developed to ensure continued operation after disruption of service.

OTHER MATTERS

- Due to the slow progress in the development of a centralized human resources system, 21 ministries estimated that they have developed, or will develop, human resource applications at a total cost of over $2.2 million.
- The Ministry spent $2 million to develop the pension application (CORPEN) primarily for the Pension Board, but the Board subsequently re-evaluated their plans to use it.



COMMENTARY

JUSTIFICATION

Management Board Directives establish the principles and mandatory requirements for effective and efficient management of information technology. The Directives require that a business case for any information technology project itemize in monetary terms all costs, benefits, and accumulated benefits on a year-to-year basis until a trend of continuing benefits is ascertained. Total benefits must at least exceed total estimated costs within a four-year period from the date of implementation, unless otherwise approved by Management Board.

The business case prepared in 1989—when the project was scaled down—did not prove that CORPAY would be the most workable and cost-effective choice from among existing and alternative solutions. For instance, analysis showed that contracting for payroll services from the private sector would be less costly than CORPAY over a 14-year period. However, the analysis did not adequately show why this option was not chosen over development of a completely new application.

In addition, because of the relatively short time for the analysis, the Ministry did not sufficiently analyze whether payroll applications from other governments or large private sector firms could be adapted economically to meet the Province's needs.

In reviewing the business case, we noted that, although the Ministry predicted that the new application would be in use for approximately 15 years, they estimated it would take 17 years for the Province to recover the costs incurred.

The Ministry's business case did not consider the $3.4 million cost of operating the existing application during implementation of the new application. Including this cost in the payback analysis would delay recovery another 6 years, to a total of 23 years. Also, the Ministry did not assess costs to clients of converting to and operating the new application.

Since the projected life of the application is 15 years, our analysis indicates that the benefits will not exceed the costs.

The Ministry also justified developing a new payroll application because of a consultant's 1989 estimate that the existing one was likely to break down within the next 3 years, causing disruption in pay to public servants. Yet, no breakdown has occurred since the assessment, despite significant changes to the existing application.

Lastly, the objective of the new application was to replace an existing payroll application. Yet, once the new system is operational, the existing one will still need to be kept in order to pay certain employees.

SECURITY

CORPAY maintains and processes confidential information, such as the name, social insurance number, date of birth, pay, spousal and dependent status, garnishees, and support orders for employees and pensioners.

There are at least five different software security mechanisms to control access to this information on the Toronto Development Centre mainframe computer: network access software, access control software, communications software, database software and application security software. From a security standpoint, the proper implementation of the control features within the software would ensure that CORPAY operated within an adequately controlled environment.

During our testing, we defeated the various security controls and could access payroll data. We determined that any of the other

mainframe users could have done the same thing. For example, we found:

- in unprotected files, passwords belonging to powerful user accounts, which could do anything on the computer. These passwords could have potentially been used by users of the Toronto Development Centre to read or change any information stored on the computer; and
- due to the way the Ministry installed its terminal software and the availability of a powerful system utility, any user could read CORPAY user passwords and make unauthorized changes to payroll data.

3.07

We also found that it was possible for over 100 Human Resource Information Services users to by-pass Ministry restrictions and make unapproved changes to the CORPAY application, although we found no evidence of this happening.

There were additional serious problems with controls over passwords:

- in November 1990, a Ministry Internal Audit report noted that passwords were visible whenever a user changed passwords. Neither the software supplier nor the project team had fixed the deficiency at the time of CORPEN implementation. Most software packages do not allow passwords to appear on the screen because of the danger that an unauthorized person could see a password and use it to enter the payroll application;
- users could choose one-character passwords, a security risk because single-character passwords are easy to guess for someone attempting unauthorized access to the payroll application; and
- a common precautionary measure to prevent unauthorized persons from eventually guessing passwords is to suspend access to a user account after several incorrect password attempts. The CORPAY application security software allowed an unlimited number of guesses.

Contrary to provisions of the *Freedom of Information and Protection of Privacy Act*, the project team used private information of retired government employees during testing of the pension portion of the CORPAY application. The project team had 45 user accounts with access to this information and two of the accounts even belonged to former employees.

Large scale computing facilities generally develop business resumption plans to organize a response to any unforeseen disaster, which might leave the computing facilities unusable. The Ministry should plan alternate computing facilities and assign responsibilities to ensure a timely resumption of service and that plan should be tested. No tested business resumption plan was available to ensure a timely resumption of CORPAY functions.

The CORPAY application is located at the Toronto Development Centre mainframe computer, not the Toronto Production Centre where production applications usually operate. Negotiations were in progress to decide the eventual operating site and this uncertainty may have resulted in the lack of a business resumption plan.

OTHER MATTERS

HUMAN RESOURCES

The original project began in 1983 to integrate existing payroll and attendance applications and to provide additional human resources functions, such as central monitoring and reporting of job vacancies.

In October 1989, the Ministry deferred the Human Resources component of the project to concentrate on payroll. At that time, the sponsorship for future human resource initiatives was given to the Hu-

man Resources Secretariat. Ministries who needed this functionality had either to develop a system or to wait for future initiatives.

We surveyed all Ministries regarding their payroll and personnel activities. As of October 1991, 8 out of the 25 ministries that responded to our questionnaire had developed human resources systems since 1983 at a cost of over $1 million. Another 13 ministries planned to develop a human resource application within the next three years at an estimated total cost of more than $1.2 million.

However, in June 1991, Human Resources Secretariat announced plans to develop a Human Resources Information System to help ministries with reporting requirements for Employment Equity and the Senior Management Compensation Plan. It subsequently sought help from external consultants to define the human resource needs of the government.

We are concerned by this apparent duplication of effort. Clearly, more central coordination is needed before any further work on human resource applications is undertaken by ministries and central agencies.

PENSION PROCESSING

The Ministry spent approximately $2 million since October 1989 developing the CORPEN application to process payroll for 35,000 pensioners administered by the Public Service Pension Board and for another 300 pensioners paid by the Ministry. In March 1991, the Pension Board delayed its plans to convert, and now plan to evaluate other pension applications. If it had been known from the beginning that Pension Board was not planning to use the new application, it is likely the Ministry could have processed the payroll for their 300 pensioners in a more economical way, such as using the existing PENPAY. The Ministry would have saved $2 million in development costs.

RESPONSES

The Deputy Minister of Government Services responded to our report on March 27:

JUSTIFICATION

In October 1989, the options available to replace the current payroll systems were presented by the Ministry of Government Servicies (MGS) and reviewed by Management Board of Cabinet. The audit opinion on the degree and appropriateness of that analysis should take into account the administrative environment of the Ontario Public Service. For example, two years previously, options such as privatization were not acceptable because of security issues. However, in August 1989, Management Board of Cabinet requested a rigorous but informal analysis of privatization and other options. We believe the analysis of options was appropriate given the complex nature of the Ontario Public Service environment, the time available and feasibility of particular options.

The decision to proceed with CORPAY was made on the analysis of a number of complex factors rather than on the basis that quantifiable benefits would exceed costs. Management Board of Cabinet, in October 1989, approved the current plan of delivering a uniform, corporate payroll, personnel, and benefits application. This decision was based upon three factors:

- *an independent report assessed the current systems as having a medium risk of missing a payroll;*

- *there was a desire to build for the future, allowing for the addition of the deferred Human Resources and other systems; and*
- *other options did not appear to offer significant benefits but had known risks as a solution for the large and complex scope of payrolls in the Ontario Public Service (with 135,000 payees and $4 billion of annual expenditures).*

The current systems are not duplicated in the new payroll systems, except for pension systems (see note below). CORPAY, when fully installed, will replace all of our current IPPEBS payroll(s).

SECURITY

Application

3.07

Beginning in the December 1990 testing phase, MGS took steps to improve security at the application level. A new staff was recruited and an external consultant was used to guide staff in how to improve our security process. While we agree with the audit points that staff had inappropriate access, during testing, to pension data, many aspects of security are improving. For example, (a) procedures are in place to monitor and prevent attempted activities such as unauthorized access to systems and (b) data access is now approved by the owner of the data. Although the business resumption plan was not tested, we are now working towards testing it as part of our migration to the production facilities of Computer and Telecommunication Services (CTS). MGS internal audit, in preparation for the CORPAY implementation, is now reviewing the HRIS Branch Security area as part of their ongoing audit of CORPAY.

Computer Environment

CTS has made significant improvements in security over the operating system environment. These improvements were verified by MGS Internal Audit Branch. CTS hired an external security specialist to identify other controls which would assist CTS in their continued improvement of security. A phased plan has been developed to implement these controls over the longer term. CTS is currently developing new security guidelines and creating benchmark security standards to ensure a higher level of security over CTS resources.

OTHER MATTERS

PENSION PROCESSING

We agree with your finding. MGS continues to wait for the final decision from the Ontario Pension Board on their use of the new payroll system.

The Secretary of Management Board of Cabinet responded to our report on May 6:

OTHER MATTERS

HUMAN RESOURCES

The audit report identified the need for a more centrally co-ordinated approach to human resource management systems. We agree with this finding.

In fact, the original CHRIS system was based on the same concept. Unfortunately, the complexity of one human resource system to meet the divergent needs of all the various government ministries

and agencies turned out to be overly ambitious and expensive. The Board's decision to focus on payroll as the most critical need, and to defer action on the human resource components was designed to minimize risk and to control expenditures. It was recognized that some ministries had pressing and unique human resource information needs that could not be deferred. These were to proceed independently once appropriate Management Board of Cabinet approvals were obtained. To date, the evidence would suggest that these small independent information systems have been relatively inexpensive and quite effective.

In June 1991, Management Board Secretariat began a review of human resource information needs as they applied to Employment Equity. Since the CORPAY payroll system development has been largely completed, the time has come to once again consider the broader corporate human resource requirements of the government. We have extended the June 1991 review to include this and also to examine the unique human resource information needs of ministries. This will permit us to determine the most effective way of addressing the co-ordination of ministry and central agency information resources for the future. Experience would suggest that it is unlikely that this will result in a single, one size fits all, government-wide human resource system such as that originally contemplated under CHRIS.

MINISTRY OF HEALTH:

Queen Street Mental Health Centre

3.08

The Queen Street Mental Health Centre is a 535-bed facility situated in the City of Toronto which also offers services to 1,700 out-patients at 12 community clinics. The Centre specializes in the care of adults suffering from severe mental illness and provides psychiatric assessments, diagnosis, treatment, rehabilitation and re-integration into the community, as well as on-going support.

For the 1991/92 fiscal year the Centre's expenditures were approximately $74 million, of which $64 million was spent on salaries and benefits for the Centre's 1,200 staff.

Our audit focused on in-patient care, since this accounted for approximately 75 per cent of the Centre's salaries and benefits.

One of our audit objectives was to assess whether established policies and procedures, including the *Mental Health Act*, were being followed.

We interviewed Centre personnel and patients. We also surveyed Centre psychiatrists and nurses, and reviewed the clinical records regarding the admission, treatment and discharge of patients, as well as other available documentation including the minutes of key committees.

CONCLUSIONS AND FINDINGS

COMPLIANCE

We concluded that established policies and procedures were generally being followed. However, we were unable to conclude whether the Centre complied with certain sections of the *Mental Health Act* relating to the rights of patients to be fully informed about their treatment.

OTHER MATTERS

- There was no documented evidence that significant differences in ward readmission rates were followed up.
- During the 1991/92 fiscal year, 182 patients went AWOL (away without authorized leave) a total of 400 times. This is twice the frequency with which patients went AWOL in the 1990/91 fiscal year.
- Financially capable patients were not charged for their maintenance at psychiatric hospitals contrary to provisions of the *Mental Hospitals Act*.

BACKGROUND

The Centre's operations are governed primarily by the *Mental Health Act* and Regulations, and the *Mental Hospitals Act* and Regulations. The *Mental Health Act* gives clear guidance for the fair and equal treatment of those who need mental health care. The Centre's administrator is responsible for its day-to-day operations and

reports to the Director of the Mental Health Facilities Branch of the Ministry of Health.

The Centre is an accredited teaching hospital affiliated with the University of Toronto. It serves approximately 2.1 million people in the cities of Toronto, Etobicoke, North York (west of Yonge Street), York and the Region of Peel. The Centre has between 14 and 35 patients on each of its 16 wards.

COMMENTARY

COMPLIANCE

CENTRE COMMITTEES

The two main committees of the Centre are the Community Advisory Board (CAB) and the Management Committee.

The CAB is comprised of community representatives, including mental health consumers, appointed by the Minister of Health. Senior Centre officials and the President of a union local also attend the meetings. The CAB's mandate includes developing and maintaining effective avenues of communication between the Centre, the community it serves, and the Ministry. The CAB carries out its mandate in accordance with by-laws which are established by the Centre and approved by the Minister. The July 1991 by-laws state that this committee's purpose includes ensuring compliance with the *Mental Health Act* and advising the Minister of Health on the Centre and other appropriate health issues. There are five standing committees which report to the CAB, including the Executive Committee and the Quality Assurance and Patient Care Committee. These Committees are comprised of management and CAB members.

The Management Committee comprises the Centre's administrator and other senior Centre officials. Its mandate includes allocating human, financial and material resources, and making decisions on changes in services to be provided and operational issues related to the treatment and care of patients. The administrator reports significant direct patient care matters and other high profile issues to the Mental Health Facilities Branch and also reports pertinent issues to the CAB. Over 45 Centre committees report directly or indirectly to the Management Committee, including the Medical Advisory Committee, the Psychiatric Audit Committee, the Professional Advisory Committee, the Quality Assurance and Risk Management Committee, the Utilization Review Committee and the Employee/Management Relations Committee.

We reviewed the minutes of meetings of 12 committees, including those mentioned above, for the past three fiscal years as well as various committee reports as they related to other areas of our audit. We found that these key committees were generally meeting the required number of times, addressing matters in accordance with their terms of reference, and following up on significant items brought to their attention. However, we also found that the CAB did not ensure the Centre's compliance with the *Mental Health Act*.

Recently a Centre task force was established to restructure the CAB and its five standing committees. This restructuring includes redefining the CAB's roles and responsibilities.

ADMISSION POLICIES

The Assessment and Admitting Department is the point of contact for persons who seek help on their own, are brought by family or community agencies, or are referred by another hospital.

3.08

The Department is responsible for the psychiatric assessment of individuals, determining the most appropriate treatment alternatives and implementing the post-assessment decisions. This Department has over 15 employees including nurses, social workers and psychiatrists.

During the 1991/92 fiscal year, the Centre assessed over 3,800 individuals for psychiatric illness. Of these, approximately 2,000 were admitted as in-patients.

The Centre's admission policy requires that a psychiatric assessment be carried out on every person arriving at the Department and requesting an assessment. A psychiatric assessment involves documenting basic patient identification and clinical information including the patient's problem, mental status, diagnosis and initial treatment care plan. If the assessment is not carried out by a physician, a physician must sign and document that he or she has interviewed the patient and agrees with the details of the assessment.

A person is admitted to the Centre if the physician documents that the individual is suffering from a psychiatric disorder that requires treatment in the Centre. Patients who require other medical care are referred to a public hospital.

Once admitted, a patient is usually placed on one of the Centre's two crisis wards. After the patient's condition stabilizes, the patient may be discharged or transferred to an appropriate in-patient ward. Within seven days of a patient's transfer to an in-patient ward, a detailed admission history must be completed by the psychiatrist.

The Centre's policies require that a physical examination of a patient be completed by a physician within 24 hours of the patient's admission.

The Nursing, Psychiatric Services, Clinical Records and Assessment and Admitting Departments regularly performed audits of compliance to many of these policies and procedures. No significant deficiencies were noted in these audits. Our testing of compliance with these policies and procedures also revealed no major deficiencies.

Mental Health Act

Application By Physicians For Psychiatric Assessment

The *Mental Health Act* provides that under certain conditions (e.g., a person is apparently suffering from a mental illness that likely will result in serious bodily harm to the person or another person, or in imminent and serious physical impairment of the person) a physician can apply to have a psychiatric assessment done. The physician makes this application by completing a "Form 1". This Form is valid for seven days after the physician has signed it and serves as authorization to take the person in custody to a psychiatric facility. During the 1991/92 fiscal year the Form was used to assess approximately 800 patients.

Our testing of compliance with these requirements revealed no major deficiencies.

Involuntary Patients

According to the *Mental Health Act*, physicians in a psychiatric facility shall admit persons as involuntary patients if, for example, the physicians are of the opinion that the persons are suffering from a mental illness and will likely cause serious bodily harm to themselves or another person, and such persons are not suitable for admission as voluntary patients. In this situation, the physicians complete certificates of involuntary admission (Form 3). A Form 3 is valid for two weeks.

In order for a person under a Form 3 to continue as an involuntary patient after the two weeks, the physician must complete a certificate of renewal (Form 4). When a physician completes a Form 3 or Form 4, the physician must inform the patient in

writing of the reason, and of the patient's right to retain counsel. Approximately 13 per cent of the Centre's patients are involuntary.

Our testing of compliance with these requirements revealed no major deficiencies.

TREATMENT POLICIES

Treatment Process

Multi-disciplinary treatment teams are responsible for all aspects of patient care at the Centre. Each team is generally responsible for many patients and comprises staff from psychiatry, nursing, psychology, social work, occupational therapy and recreational therapy. Additionally, each patient is assigned a primary nurse responsible for developing a one-to-one therapeutic relationship.

The team is responsible for developing a treatment and care plan for each patient. The care plan is based on the patient's needs and includes assessed and identified problems, planned treatments and daily programs, the objectives and expected outcomes (including a target date for reassessment and re-evaluation), and a review of actual outcomes and objectives met to date.

At least once every two weeks, the team discusses each patient and his or her care plan. The results of this discussion are documented in the patient's record. Additionally, the team revises the patient's care plan at least monthly.

Nursing notes also document the implementation of a patient's care plan. In addition, a progress note usually written by the primary nurse includes the patient's interactions with the primary nurse. The progress note must be documented at least once per week after the patient's second week at the Centre. Every second week, the progress note includes the patient's response to regular medication.

The Nursing Quality Assurance Department performed quarterly audits on inpatient records including compliance to many of the above procedures. No significant deficiencies were noted in these audits.

Our testing of compliance with the treatment procedures also revealed no major deficiencies.

Patient Restraints

Restraints are used to place a patient under control to prevent serious bodily harm to the patient or another person. There are two methods of restraining patients: mechanical and chemical. The method of restraint used depends generally on the patient's condition. The more aggressive the patient, the greater the likelihood that a mechanical restraint will be used.

During the 1991/92 fiscal year, there were approximately 620 orders for mechanical restraints applied to 320 patients. This resulted in approximately 27,900 hours of continuous observation by nursing staff. It also represented a 25 per cent increase in the number of orders and a 40 per cent increase in the number of continuous observation hours from the previous year. Of the 27,900 hours of continuous observation, approximately 6,000 hours were attributable to two patients.

From October 1991 to March 1992 (chemical restraints were first tracked in October 1991), approximately 185 chemical restraint orders were given to 120 patients.

According to the Centre's policies on mechanical and chemical restraints:

- the physician must assess the patient and sign a restraint order;
- a patient must be involuntary when placed in mechanical restraints;
- the type of restraint, name of medication, and the rationale for the restraint

application must be documented in the patient's clinical record;

- patients in mechanical restraints must be observed continuously by nursing staff to ensure patient safety and periodically reviewed by medical staff to ensure the restraint's continued appropriateness;
- after 72 hours, it is recommended that a second psychiatric opinion be sought in order to continue the use of mechanical restraints; and
- long-acting medication must not be used for a chemical restraint.

Since October 1991, the Psychiatric Audit Committee has conducted four audits on the Centre's compliance with mechanical and chemical restraint policies. No major deficiencies were noted in these audits. Our tests for compliance with mechanical and chemical restraint policies also revealed no major deficiencies.

3.08

Patient Incident Reports

There are approximately 80 patient incidents per month of which 50 per cent are assaults. An incident is defined as any happening involving a patient which is not consistent with the routine operation of the facility or the care of a patient. It may be an accident or a situation which might result in an accident. The Centre's Patient Incident Report Policy requires that all incidents be documented on the incident reporting form so that preventive measures can be implemented, where possible, to decrease or eliminate recurrences.

Patient incident reports were prepared by the Nursing Quality Assurance Department from incident forms for the quarters ending December 1991 and March 1992.

To assess whether all incidents were reported on patient incident forms, we reviewed fifteen occurrences which we considered to be incidents according to the Centre's policy. We noted that patient incident forms could not be located for five (33 per cent) of these occurrences. For example:

- in one case the clinical record stated that one patient struck another patient on the side of the face and that the struck patient appeared extremely tremulous and shaken after the incident; and
- in another case the clinical record indicated that a patient made advances towards another patient who repeatedly denied consent.

As well, 18 of the 52 nurses responding to our survey indicated that there are types of patient-related incidents which are not reported although the Centre policy requires them to be reported.

In reviewing quarterly patient incident reports, we found no documented evidence of follow up of significant differences. Our review of these reports revealed many significant differences which we felt warranted follow up. For example, in one ward, patient incidents increased from 12 during the quarter ended December 1991 to 30 during the quarter ended March 1992; in this ward, there were 42 patient incidents for the six months ended March 31, 1992, and in a similar ward there were four incidents.

A Centre task force formed in February 1991 recommended changes to the Centre's policies and procedures on incidents in order to provide staff with improved guidelines for the control and management of patient-related incidents and the analysis of incidents. We were informed by senior management that revisions to many of the Centre's incident policies and procedures were made recently and that additional changes are currently being reviewed by the Ministry.

Mental Health Act

Consent to Treatment

According to the *Mental Health Act*, informed consent must be obtained before specified psychiatric and other related medical treatment are provided. Such consent is obtained directly from patients who are mentally competent, and from substitute consent-givers for patients who are not mentally competent. In the latter case, physicians must inform the patients in writing that they are not considered mentally competent to consent to treatment, and must also notify the Rights Advisor of the Patient Advocate.

"Mentally competent to consent to treatment" is defined in the *Mental Health Act* as having the ability to understand both the nature of the illness for which treatment is proposed and the treatment proposed; and to appreciate the consequences of giving or withholding consent. During the course of our audit, the Centre issued a policy which requires the physician to document when a patient is adjudged mentally competent to consent to treatment.

"Informed consent" is defined by Ministry policy as consent obtained following an explanation by the physician of the proposed treatment, its severity, any material risks of injury and any special risks relating to the specific treatment, the consequences of leaving the illness untreated and the alternative forms of treatment, if any, and their risks. The Centre has a policy requiring that informed consent be documented by the medical staff.

In October 1991, the Centre's Psychiatric Audit Committee identified consent to treatment as a high-risk area which warranted an examination for compliance to hospital policies.

Information reported by the Centre to the Ministry, as of March 1, 1992, indicated that 83 per cent of the Centre's patients were competent to consent to treatment. The average for the other nine psychiatric hospitals was 64 per cent.

Our tests to determine whether the Centre was complying with the sections of the Act on informed consent and mental competency revealed that:

- 23 of 24 psychiatrists responding to a question on our survey stated that they obtained informed consent. Thirteen of these psychiatrists also stated that they routinely documented this consent in the patients' clinical records;
- in 10 of 15 cases there was no documentation in the clinical records of competent patients that informed consent had been obtained prior to treatment. At the time of our patient interviews, the majority of these patients either chose not to talk with us or had been discharged;
- 11 of 20 competent patients told us during our interviews that they had not received explanations from Centre staff of the side effects of their medication before they were asked to take the medication. Another four did not know whether they had received explanations;
- 21 of 22 psychiatrists responding to another survey question stated that they routinely assessed each patient's mental competence to consent to treatment. Eighteen of these psychiatrists also stated that they routinely documented the basis for this decision;
- out of 15 clinical records of competent patients, 7 had no documented evidence that the competence of the patients had been assessed. In several of these cases, information on file indicated that the patients may not have been mentally competent to consent to treatment. For example, in one patient's record the psychiatrist indicated that although the patient's insight was rather poor as to the patient's psychiat-

ric problem, the patient was willing to stay and accept treatment. According to the Court of Appeal for Ontario, while there is a presumption that adult patients are competent, a physician is under a duty to remain alert for signs of incompetence, even in a patient who is willing to be treated;

- out of 10 clinical records of incompetent patients, 3 had no documented evidence that the patients had been served with a written notice of the finding of incompetence by the physician. We understand that the Rights Advisor of the Patient Advocate has not been notified of two of these cases. In one of the seven cases, the patient and the Rights Advisor of the Patient Advocate received the written notice of incompetence approximately one year after substitute consent was obtained; and
- clinical records of incompetent patients indicated that in 7 of 10 cases the written consent that had been obtained was very general. For example, consent was obtained to administer psychotropic medications, and no specific medication, dosages or time frames were mentioned.

We recommend that periodic reviews be undertaken by the Centre to ensure compliance with the Act with respect to obtaining informed consent. We also recommend that procedures be established to ensure consistency in documenting informed consent including the specificity of treatment to be provided.

DISCHARGE

A multi-disciplinary team is responsible for planning a patient's discharge, which includes arranging for the patient's care after discharge (aftercare) and housing needs. The patient's aftercare may include attendance at an out-patient program of the hospital or a community clinic, or seeing the patient's family doctor or psychiatrist. It is the patient's responsibility to attend the aftercare arrangements. The Centre's staff are not responsible for discharged patients. During the 1991/92 fiscal year, approximately 2,000 patients were discharged from the Centre.

Within 24 hours of a patient's discharge, a disposition data form is completed and signed by the patient's psychiatrist. This form includes the patient's residence on discharge and the aftercare arrangements made for the patient.

The psychiatrist is also responsible for completing a discharge summary within 14 days of each patient's discharge. This summary includes the actions taken by the Centre to address the patient's financial and medication needs.

The Clinical Records Department reviews the records for all discharged patients to ensure the disposition data form and the discharge summary have been completed.

Our tests of the above procedures revealed no major deficiencies.

OTHER MATTERS

PATIENT READMISSIONS

A 1991 study by Centre and Ministry staff prepared for the Ontario Mental Health Foundation on psychiatric patients living in the community stated:

> "In the field of mental health, there has been a shift from prolonged continuous hospitalization to repeated, brief hospital stays... For some mentally ill individuals, decreased length of stay in the hospital has resulted in the 'revolving door syndrome', which is becoming increasingly apparent as readmission rates increase... In view of the current treatment goal of maintaining the mentally ill in the community, the rising rates of readmission are of in-

creasing concern to mental health professionals and administrators... A significant number of hospital admissions for the chronically mentally ill could be averted if treatment and environmental predictors of re-hospitalization were identified and monitored."

Recent research suggests that former patients are more likely to be re-hospitalized if they have had a number of previous admissions, did not take their medication or had a deficient living situation or social support.

We noted that in the autumn of 1991, Centre management and Ministry staff identified the readmission rate of the Centre as one of several significant cost-effectiveness issues.

Our review of the Centre's in-patients on December 18, 1991, revealed that 77 per cent had been previously hospitalized at the Centre. The average readmission rate for the other nine psychiatric hospitals was 65 per cent on December 18, 1991. For the fiscal year ended March 31, 1992, 77 per cent of admissions to the Centre were readmissions. Of these readmissions, 42 per cent occurred within three months of discharge and 68 per cent occurred within one year of discharge.

While the Centre has compiled statistics comparing ward readmission rates each year since June 1989, we saw no documented evidence that significant differences were followed up. For example, on one ward 77 per cent of admissions were readmissions, and on a similar ward 55 per cent of admissions were readmissions.

We recommend that statistics on readmission rates be reviewed periodically and significant differences followed up.

PATIENTS AWAY WITHOUT AUTHORIZED LEAVE (AWOL)

A person may be admitted to the Centre as a voluntary or involuntary patient, or as a patient under an order of the Ontario Criminal Code Review Board (OCCRB). An OCCRB patient is a person who has been found by the courts to be either unfit to stand trial or not guilty by reason of insanity. All OCCRB patients are considered registered in-patients of the Centre. However, they may be allowed to temporarily leave the Centre or live in the community in accordance with the terms of their order.

Of the Centre's registered in-patients, approximately 78 per cent are voluntary patients, 13 per cent are involuntary patients, 4 per cent are OCCRB patients requiring care in the Centre, and 5 per cent are OCCRB patients living in the community.

The Centre has 16 wards, including five which are locked. The remaining wards are usually unlocked, but may be temporarily locked by staff if this is in the best interest of the patients. Patients may be granted off-ward privileges (e.g., free access to the Centre and its grounds or free access to the community) in accordance with their condition. Once a patient has been granted off ward privileges, the Centre relies on the patient to comply with privileges granted. Voluntary, involuntary, and OCCRB patients are located throughout the Centre with no particular category of patient assigned to a particular ward.

According to a listing maintained by the Clinical Records Department, 182 patients went AWOL a total of 400 times during the 1991/92 fiscal year. This is twice the frequency with which patients went AWOL in the 1990/91 fiscal year. We were informed by senior management that during this

time there was a system-wide change in policy and a restructuring within the Centre which staff felt adversely influenced the number of patients going AWOL. Information on AWOL patients for the other nine psychiatric hospitals was not available from the Ministry.

We found no documented evidence that the Centre was keeping track of the patients who repeatedly went AWOL or the wards which had the highest number of AWOL patients. Our analysis of the AWOL list for the 1991/92 fiscal year indicated that:

- six were OCCRB patients, three living in the community and three in the Centre's care, and the majority of the remaining 176 were involuntary patients;
- of the 176 patients, 76 (43 per cent) went AWOL more than once, including 12 who went AWOL more than five times;
- the three OCCRB patients in the Centre's care, and one of the three OCCRB patients living in the community, went AWOL more than once. Two of the OCCRB patients living in the Centre went AWOL more than five times; and
- the number of AWOL occurrences on similar wards ranged from 25 to 102.

We recommend that AWOL information be reviewed periodically, and that significant differences be followed up.

3.08

MAINTENANCE PAYMENTS FROM PATIENTS

According to the *Mental Hospitals Act*, financially capable patients admitted to a psychiatric hospital are responsible for their maintenance. The regulations under this Act permit psychiatric hospitals to charge patients for their maintenance based on the per diem rate of the institution. We were informed, however, that financially capable patients were not charged for their maintenance in the Province's ten psychiatric hospitals because of instructions received many years ago from a former Minister of Health.

One inequity resulting from this practice was stated in our 1987 report on the Mental Health Area of the Ministry of Health. We noted that provincial psychiatric hospitals were providing free chronic and nursing home care to some patients, yet similar patients at chronic care hospitals and nursing homes were required to make a co-payment.

RESPONSE

The Deputy Minister of Health responded to our report on September 14:

Thank you for the opportunity to respond to the report on the audit of Queen Street Mental Health Centre. I am pleased that this external review re-affirmed that overall the Centre is operating in compliance with established policies and procedures in its services to adults with severe mental illnesses. The auditors have raised several issues which need clarification and others which call for action.

COMPLIANCE

CENTRE COMMITTEES

It should be noted that the by-laws are currently under revision and the clause that the Community Advisory Board should be accountable for ensuring that the Centre is in compliance with the Mental Health Act *has been deleted. This by no means diminishes the importance of the* Mental Health Act, *but simply assigns the responsibility more appropriately to the Administrator of the hospital and the Director of the Mental Health Facilities Branch.*

TREATMENT POLICIES

Patient Incident Reports

As indicated in discussions with the audit team, the Centre has finalized new policies and procedures relating to incidents and a committee has been struck to review critical incidents. In addition, a debriefing team is being established to work with both patients and staff after an incident occurs.

Mental Health Act

Consent to Treatment

The audit observation that documented evidence was not present on all clinical files of patients who were competent to consent to treatment and who had, in fact, given consent, is noted. This issue will be reviewed carefully by the hospital on a program by program basis.

The hospital reports that discussion groups regarding side effects of medication are held regularly on many wards and programs. However, this is an important issue which the hospital will review to ensure information is provided to all patients on an on-going basis, as well as prior to obtaining consent for treatment.

The issue of the documentation of the assessment of competence will be explored across programs by the hospital medical audit committee.

The hospital agrees with the recommendation that periodic reviews be instituted to ensure that informed consent is being obtained, and this will be done.

OTHER MATTERS

PATIENT READMISSIONS

The hospital agrees that re-admission rates are potentially significant. Mechanisms will be established to review re-admission rates periodically and to understand significant variations, as recommended.

PATIENTS AWAY WITHOUT AUTHORIZED LEAVE (AWOL)

Two significant points must be noted:

- *staff are required by legislation to use the least restrictive measures that are compatible with the individual's mental condition. This requires continued titration as staff endeavour to find the exact point of balance; and*
- *it cannot be assumed that an individual who leaves the Centre without authorization is inherently dangerous. Very few pose a serious physical risk to themselves or others.*

Nevertheless, the hospital will take steps to track those individuals with a propensity for taking unauthorized leaves, in order to determine the most appropriate course of action.

3.08

MAINTENANCE PAYMENTS FROM PATIENTS

The audit observed that the Mental Hospitals Act *provides for charges for patient's maintenance to be made. I have asked for a review of the co-payment regulations and the legislation to look at the alternatives to the provincial psychiatric hospitals providing free chronic and nursing home care.*

We appreciate the auditors' diligence. I am sure implementation of these recommendations will assist us in effectively carrying out our responsibilities.

MINISTRY OF HEALTH:

Community Mental Health

The Community Mental Health Activity of the Ministry of Health's Community and Consumer Health Program is primarily responsible for the operational and capital funding of community-based, not-for-profit programs and Homes for Special Care. For the 1991/92 fiscal year, expenditures for this Activity totalled $310 million.

The Activity is administered by the Community Mental Health Branch (CMHB) which has a staff of 46. Administrative expenditures for the 1991/92 fiscal year totalled $2.7 million.

Our audit objectives were to assess:

- whether payments were adequately controlled; and
- the adequacy of the Ministry's monitoring of care and services.

Our audit was conducted at the CMHB and the Fiscal Resources and Finance and Accounting Branches of the Ministry, and focused on Homes for Special Care and Community Mental Health and Alcohol and Drug Dependency Programs. We interviewed key personnel at the Branches and reviewed available documentation. We also visited several Homes for Special Care and community programs. The audit covered primarily fiscal years 1989/90 and 1990/91, and 1991/92 where appropriate.

CONCLUSIONS AND FINDINGS

CONTROLS

Community Mental Health and Alcohol and Drug Dependency Programs

Controls were less than satisfactory. We had significant concerns with how amounts to be funded were determined, and with the financial monitoring and settlement process.

- In many instances, Ministry staff lacked sufficient information about community programs to make informed funding recommendations. This resulted in the Ministry funding questionable items and some items for which no expenditures were actually incurred.
- For the past two years, annual funding increases were based on a program's prior year's budget without a review of surpluses or deficits, or changes to workload. This perpetuated inequities and resulted in excessive funding in some cases. For 24 of the 30 programs which we reviewed, the Ministry provided surplus funds totalling $1,275,000 and $842,000 in the 1989/90 and 1990/91 fiscal years respectively, or approximately 9 per cent of the total funds provided.
- Significant program expenditures were approved for one-time capital items

without documenting the necessity of the items approved, or the reasonableness of the amounts provided.

- Ministry funding decisions generally did not take into account programs' other sources of funding, raising the possibility of excessive or duplicate funding. We noted that 10 of 30 programs reviewed had accumulated cash surpluses in excess of 25 per cent of their annual expenditures. In one case, the surplus was as high as 124 per cent.
- Only 205, or 38 per cent of the 539 programs funded, submitted their completed 1990/91 settlement packages before the August 1 deadline.

  We also noted that 34 programs that received a total of $7.6 million in 1989/90 had not filed their 1989/90 settlements by January 31, 1992. Notwithstanding, these programs received over $16.7 million during the following two years.
- The Ministry provided at least $1 million in one-time capital grants to several community programs which in turn used the money to hire consultants who performed work at, or on behalf of, the Ministry. In effect, the Ministry used transfer payment funds to pay for items that would normally be paid from its own salary or direct operating expenditure allocations.
- Ministry staff did not adequately monitor the activities and expenditures of a program to attract psychiatrists to Northern Ontario.

Homes for Special Care

Controls over maintenance payments were satisfactory.

MONITORING CARE AND SERVICES

Monitoring of care and services was less than satisfactory. There was no evidence that the Ministry had defined acceptable levels of care or in most instances, had prepared evaluations on the quality of care provided.

BACKGROUND

COMMUNITY MENTAL HEALTH PROGRAM

The Community Mental Health Program was introduced in 1976 in response to a growing need for community-based services resulting from a trend to de-institutionalize patient care.

The objective of this program is to provide individuals with access to community-based mental health services. In many instances, community mental health programs are administered by not-for-profit agencies. The programs are to be used by individuals 16 years of age or older. Programs for children are administered by the Ministry of Community and Social Services.

For fiscal year 1990/91, there were 383 programs such as housing, clinics and social rehabilitation. Expenditures for the year totalled $122.6 million.

ALCOHOL AND DRUG DEPENDENCY PROGRAM

This program was established in 1983 with the objective of providing individuals experiencing substance abuse with equitable access to a variety of community-based, non-medical programs. For fiscal year 1990/91 there were 156 programs such as counselling/day treatment, residential treatment, and detoxification. Many of these programs are hospital-based. Expenditures for the year totalled $50 million.

HOMES FOR SPECIAL CARE

The HSC program was established in 1964 under the *Homes for Special Care Act*. The program provides supervised community accommodation primarily for patients discharged from provincial psychiatric hospitals.

At the time of our audit, there were 167 nursing homes and 198 residential care homes in the Homes for Special Care program, which housed approximately 3,800 individuals. Expenditures for the 1990/91 fiscal year totalled $76 million.

COMMENTARY

CONTROLS

COMMUNITY MENTAL HEALTH AND ALCOHOL AND DRUG DEPENDENCY PROGRAMS

Programs have traditionally prepared annual budget requests using the Ministry's standard line-by-line items such as salaries, rent and utilities, and supplies and other expenses. Branch staff then reviewed these requests in detail and approved a program's funding subject to assessed priorities and overall branch allocations.

Line-by-line changes to the approved budgets are possible at any time during the year, provided that the total budget is not exceeded, the items changed do not commit the program to a larger total budget in the following year, and changes to salary categories receive prior approval.

To streamline this process, programs were awarded "across-the-board" increases of 5.5 and 6.0 per cent for the 1990/91 and 1991/92 fiscal years respectively, based on their prior year's annualized budgets. In addition, programs were also permitted to apply for additional one-time capital funding or other additional funding in exceptional circumstances.

Funds are flowed to programs twice monthly by the Fiscal Resources Branch using direct deposit. Year-end settlement forms and accompanying audited financial statements are to be received by August 1, or four months after the end of the fiscal year.

Funding Recommendations

We were generally unable to determine on what basis budget requests for funding were adjusted or recommended to senior management for approval. In many instances, the Ministry's program consultants lacked sufficient operational information to make informed funding recommendations.

This has resulted in the Ministry funding questionable items and some items for which no expenditures were actually incurred. The following examples illustrate our concern:

- for the past three years, the Ministry provided a total of $169,000 to an addiction services program. Throughout this time, there was no documentation of program visits, and no activity reports had been received; and
- another program received funding of $98,000 over the past two years for property taxes on its building in Toronto. However, our inquiries indicated that the building is property tax exempt and no tax costs had been incurred for those years.

  The same program was also given $67,000 to cover the cost of basic telephone service for the past three years while actual costs totalled just $29,000. Although this program had significant operating surpluses each year, they have not been refunded to the Ministry.

3.09

Annual Percentage Funding Increases

For the 1990/91 fiscal year, programs were asked to submit their normal budget requests, although in most cases they received an increase of 5.5 per cent over their previous year's annualized operating costs. To streamline the budget process even further in the 1991/92 fiscal year, programs did not have to submit budget requests, and were given an increase of 6 per cent over the previous year's annualized budgeted operating costs.

These percentage increases were granted to programs without a prior review of surpluses or deficits, or changes to workload. In many instances the necessity of such across-the-board increases was questionable and only served to perpetuate previous funding inequities.

For example, a random sample of 30 of the 539 programs indicated that 24 had unspent Ministry funds totalling $1,275,000 and $842,000 in the 1989/90 and 1990/91 fiscal years respectively, or approximately 9 per cent of the total funds provided by the Ministry. These surpluses occurred after permission had been granted to the programs to utilize unspent funds for one-time capital expenditures. In the 1990/91 fiscal year, 15 of these programs used $442,000 in surplus operating funds for one-time capital expenditures.

We also noted that ten of these programs had significant recurring surpluses in salaries and benefits for at least two years in a row. As a result, a funding decrease would have been more appropriate than the 6 per cent increase granted in 1991/92.

One-Time Capital Costs

In addition to annualized funding, programs are permitted to apply for one-time capital expenditures. Requests may be made at the beginning of the year as part of the normal budget request process, or near year end to utilize anticipated surplus operating funds. Examples of such expenditures would be the acquisition of furniture or equipment, or the renovation of existing premises.

We found that the Ministry approved significant amounts for one-time capital expenditures without documenting the need or appropriateness of the items requested, or the reasonableness of the costs to be incurred. For example, one program received approximately $1.1 million over three years to acquire and renovate a treatment centre for 20 individuals. There was no evidence that the Ministry had assessed the necessity or appropriateness of this new facility or the reasonableness of the acquisition and renovation costs incurred.

In addition, a significant number of requests for one-time capital items were made late in the fiscal year. Of 30 program files reviewed in detail, 15 contained requests to utilize unspent operating funds. Twelve of these were dated after January 31 for the fiscal year ending March 31, 1991. Therefore, the provision of surplus operating funds in effect encourages one-time capital expenditures.

The Ministry has recognized the inherent difficulty in processing requests for one-time capital items. As a result we were informed subsequent to our audit that future capital requests over $50,000 will be processed by the Ministry's Hospital Planning Branch.

Other Sources of Revenue

In addition to Ministry funding, 14 of a sample of 30 programs reviewed for the 1990/91 fiscal year also had other sources of funding, including other Ontario government ministries.

Although branch procedures require the disclosure of other income, and other income would normally be disclosed in audited financial statements accompanying

settlements, there was no indication that this had been considered in the programs' budget requests or their financial settlement forms. As a result, the Ministry was basing funding and settlement decisions on incomplete information, since excessive total funding or duplicate funding could remain undetected. For example:

- a residential program in Toronto received $447,000 from the Ministry during the fiscal years 1989/90 and 1990/91, but only spent $263,000 of that amount. The surplus of $184,000 together with $58,000 in accumulated interest was recovered in fiscal year 1991/92. The program also received approximately $800,000 per year from the Ministry of Housing; and
- while the Ministry provided $362,000 to another program in the 1990/91 fiscal year, the same program received over $4 million from other sources.

  We noted that in an audit of this program, the Ministry's internal audit branch had previously identified the need for better co-ordination to avoid overlaps in funding.

We also found that a number of programs had significant accumulated cash surpluses relative to their Ministry funding. For 10 of the 30 programs reviewed, cash surpluses exceeded 25 per cent of their annual expenditures. In one case, the surplus was as high as 124 per cent.

These surpluses should be considered by the Ministry in future funding decisions.

Financial Settlements

Line-by-line settlement forms including audited financial statements are to be returned to the Ministry by August 1, or four months after the fiscal year. However, programs were generally not complying with this requirement. Only 205, or 38 per cent, of the 539 programs funded had submitted their completed 1990/91 fiscal year settlement packages before the August 1, 1991 deadline. By the end of January 1992, 225 or 42 per cent of the programs had not filed their completed settlements some ten months after the year end.

We noted that 165 of the 314 settlements received had been processed by the Ministry to the end of January 1992. For the remaining 149 settlements received but not yet processed, approximately $1.4 million in surplus funding had not been returned to the Ministry as a result of the untimely review of these settlements.

The delay in processing the 149 settlements may, in part, be due to the fact that only one Ministry employee reviews and settles the accounts of all 539 programs.

We also noted that 34 programs that received a total of $7.6 million in the 1989/90 fiscal year had not filed their 1989/90 settlements by the end of January 1992. Notwithstanding, these programs received over $16.7 million from the Ministry in the next two years.

Branch Expenditures

During the past two years, at least $1 million in CMHB administrative expenditures, which would normally be funded by the CMHB's salary and direct operating expenditure (DOE) budget allocations, was paid for by funded programs. These programs were then reimbursed by the Ministry using transfer payment funds for one-time capital items. In effect, one-time capital transfer payments were not used for the purposes intended.

For example:

- for approximately a two-year period up until October 1991, six transfer payment programs entered into consulting agreements with at least eight individuals for a total of $421,000. These individuals were then assigned to work in the Ministry, primarily as community program consultants.

In fact, one of these consultants was assigned to be the Ministry's community program consultant to the organization that paid for the position. In our view, this placed the consultant in a potential conflict of interest position, since community program consultants among other things review and recommend program requests for funding.

Seven of the eight consulting agreements were for amounts exceeding $25,000. Although we were advised that the successful candidates had been selected by the Ministry, there was no evidence that competitive selection procedures had been used. Had the Ministry contracted directly with the consultants, Management Board Directives would have required the use of competitive acquisition procedures; and

- the Ministry wanted to retain outside consulting firms to undertake work on its behalf. However, instead of the Ministry contracting with these firms directly and paying for their services using DOE dollars, funded programs entered into contracts with the two successful firms.

  We were advised that Ministry staff had interviewed four short-listed candidates prior to selecting the two successful candidates. However, completed rating sheets and other interview notes supporting the selection of the successful candidates could not be located.

  Although copies of these agreements and information with respect to actual payments made by the program to the consulting firms were not available in the Ministry, approximately $474,000 in one-time capital transfer payment grants was flowed to the program for costs incurred on the Ministry's behalf. However, records provided to us by the program indicated that the costs incurred totalled only $349,000. The program was paid the additional $125,000 without support or other explanations on file.

Psychiatrists in Northern Ontario

Since the 1986/87 fiscal year, the Ministry has funded a program with the primary objective to attract and help attain Canadian licensing for psychiatrists willing to practise in Northern Ontario. Starting in the 1988/89 fiscal year, the program also retained the services of a Native Mental Health Consultant.

The program is affiliated with the department of psychiatry of an Ontario university. Its approved budget for 1991/92 was approximately $471,000. Total Ministry funding to date amounts to about $2.2 million.

Ministry staff did not adequately monitor the activities and expenditures of this program.

The following concerns, illustrating the importance of establishing an accountability framework, were noted during our review:

- Approximately $1.4 million of the Ministry's total funding to the end of the 1990/91 fiscal year related to the objective of attracting and retaining psychiatrists in Northern Ontario. However, of 27 psychiatrists recruited at the inception of the program in the 1986/87 fiscal year, eight remain in the north. Since 1987, five other psychiatrists were recruited, three of whom started in early 1992.

  The cost per retained psychiatrist was approximately $175,000.

- The program has paid approximately $13,000 per year, or $78,000 since its inception, for employee benefits for the ex-chair of the psychiatry department of the university with which it is affiliated. During that time, this person, who is on leave from the university, has

been the Dean of Medicine at an overseas university.

We were advised that the program agreed to pay for the ex-chair's benefits in exchange for consulting services to be provided to the program during the ex-chair's annual vacation in Ontario, which was assumed to last for two months. However, we were informed that such consulting services have never been provided.

Consequently we questioned the basis on which these payments were made, since they have not resulted in any benefit to the program.

We noted that this matter was also raised in a Ministry internal audit report in February 1990. However, since this arrangement has recently been extended until 1994 when the individual retires, it has not been adequately resolved by the Ministry.

- The program has been paying an annual fee of approximately $11,000 to the current chair of the psychiatry department of the university with which it is affiliated. There is no documentation as to why these payments were made or how the amount paid was determined.
- Similarly, the program paid its Native Mental Health Consultant approximately $65,000 and $59,000 for fiscal years 1989/90 and 1990/91 respectively. Since there was no documentation to support these payments, we were unable to determine the basis on which they were made.
- During the past three years, the program paid the university approximately $38,000, which we were told was for supplies it did not use. Although the 1990 internal audit report also questioned such payments, they have nevertheless continued.

HOMES FOR SPECIAL CARE

The responsibility for the Homes for Special Care program is currently split between two divisions of the Ministry. The Community Mental Health Branch is responsible for annual licensing, while the front line placement and monitoring of facilities is provided by the Mental Health Facilities Branch through social work departments in the ten provincial psychiatric hospitals.

Homes for Special Care (HSC) are reimbursed on a per diem basis. Rates are set annually by Regulation, and currently range from $27.36 per day for individuals in residential care homes to $64.10 for individuals in nursing homes. We concluded that controls over these payments were satisfactory.

MONITORING CARE AND SERVICES

Quality of care is important for assessing both the appropriateness of services provided and the reasonableness of costs incurred. Consequently, there should be clear agreement as to what constitutes acceptable quality of care, and what criteria should be used to evaluate it.

These expectations should be documented and agreed to by the funded programs within the overall accountability framework. Periodic monitoring of such expectations by the Ministry will provide assurance that they are being met, or identify a need for corrective action.

However, because of the variety of programs funded by the Ministry, defining and evaluating acceptable levels of care is by no means an easy task. While it could be argued that quality of care issues are in many respects unique to each program, common variables could include such things as staff qualifications, appropriateness of the clinical model, and service outcomes.

Based on our review of program files and discussions with appropriate staff there was no evidence that the Ministry had defined acceptable levels of care or in most instances evaluated the quality of care provided. As a result there was no assurance that an acceptable level of care had been provided and that ultimately value for money had been received.

The following example illustrates our concern.

3.09

There are currently no minimum standards of care or criteria for evaluation of the many residential programs funded by the Ministry, including HSCs. In the absence of such standards, there is no assurance that operators have a clear and consistent understanding of what is expected of them.

As a result, operators may intentionally or unintentionally provide service that is inadequate or inappropriate in some respects. In addition, Ministry staff lack common and detailed terms of reference for communicating expectations, conducting home inspections and recommending corrective action.

Examples of minimum requirements for residential programs could include:

- the number and qualification of staff;
- food service requirements and associated record keeping;
- housekeeping; and
- other environmental factors such as requirements for water and air temperatures.

We noted that minimum standards in these and other areas have been developed for nursing homes which are monitored for compliance by Ministry staff. However, these would only apply to the approximately 1,900 HSC residents in nursing homes which are also funded by the Ministry of Health.

We were advised that the Ministry is currently developing a detailed operating standards manual to be distributed to all residential Homes for Special Care. We recommended that the Ministry develop standards to include the other residential programs funded by the Community Mental Health program.

RESPONSE

The Deputy Minister of Health responded to our report on August 26:

CONTROLS

COMMUNITY MENTAL HEALTH AND ALCOHOL AND DRUG DEPENDENCY PROGRAMS

Line-by-line changes to the approved budget are recorded and funding reallocations between budget categories must have Community Mental Health Branch approval. However, prior approval to make any adjustments in the Salaries (Direct and Indirect), Employee Benefits and Between categories must be obtained. This process ensures that staffing configurations are adhered to.

The increases awarded in the 1990/91 and the 1991/92 fiscal years were based on the Government of Ontario's announced economic adjustment factor, which is applicable to all transfer payment programs and not altered at the Ministry level.

Funding Recommendations

Consultants receive written funding requests and subsequently obtain any additional detail from programs before recommending approval of any funding request. This information is usually obtained over the telephone and verified during site visits. We acknowledge that written documentation on this verification process may not always have been placed in the files. We will ensure that written notes to file recording the crucial information regarding funding requests are made in response to this finding.

The Program referred to [in the first example]... is sponsored by a public hospital. The 1991/92 budget was $60,099 and includes one unionized full-time equivalent. The service is a component of the Community Mental Health Centre, also funded by the Community Mental Health Branch, and sponsored by the hospital.

The services offered by the program include the assessment and treatment of substance abuse problems. The former includes the assessment of personality and other psychological tests. The latter includes behaviour modification, individual and family therapies.

The program was funded in 1985, and underwent an interim evaluation in 1986 and a final in 1987.

There is a record of a program visit by the Program Development Officer, Ministry of Health in 1986. As well, there are 1986 and 1987 annual reports from the program.

The current Community Program Consultant visited the program in 1990 and 1991 to discuss program issues. These visits coincided with visits to the Community Mental Health Centre. As well, the latter was evaluated in 1991.

Considerable correspondence has flowed between the hospital and the Ministry during the 1990/91/92 years and there have been frequent telephone contacts. Annual reports were received for the 1990/91 and 1991/92 years. It is currently an on-going program with an evaluation planned for November 1992.

The program referred to in the second example... purchased a three-storey building located [in]... Toronto in July 1988. At that time, property taxes were being paid.

In October 1988, the Minister of Health officially opened this facility. At that time, an additional $200,000 was added to the [facility's] operating budget.

The funds were, in part, allocated to help with the maintenance and upkeep of the building.

In 1991/92, a comprehensive review of the program was conducted by the Community Mental Health Branch. Funds were subsequently reallocated in order to address service pressures and to accurately reflect approved expenditures.

Effective April 1, 1992, the program's base budget was reduced by $90,000.

3.09

Annual Percentage Funding Increases

The annual percentage increase is applied to all programs' base budgets regardless of their previous years financial position. This increase is applied based on the Treasurer's announced economic adjustment factor.

A monitoring system has been implemented effective April 1, 1992 to capture recovery patterns for all programs over the last three years. Before a request for one-time funding is approved, this system is checked to ensure that it is appropriate to flow the dollars. It is intended that cash flows will be adjusted when a review of recovery patterns deem it to be appropriate.

It is important to note that the presence of some unspent funds is justified, usually due to staff turnover or slower than expected implementation of service enhancements. An automatic permanent recovery of unspent funds would not be appropriate. It is now standard practice to review quarterly financial reports and make fiscal funding adjustments as appropriate.

One-time Capital Costs

The written request from the agency is confirmed verbally by the consultant and additional information is obtained as necessary. We will ensure that in future, written documentation is obtained to support each request.

Major capital expenditures are negotiated with the Hospitals Planning Branch as a part of their long-term capital plan. The Community Mental Health Branch has been part of this process since June 1991. The Community Mental Health Branch will continue to fund the acquisition of equipment and minor capital items from within its existing allocation.

Other Sources of Revenue

Programs are required to indicate through the Community Mental Health Branch (CMHB) budget process other sources of income. The CMHB holds the agency accountable for CMHB funds. The utilization of funds from other sources is the responsibility of the Board of the agency. CMHB staff work closely with staff from other funding Ministries to ensure that double funding for the same activity does not take place. Every effort will be made to enhance this inter-ministry communication.

In June 1992, the Community Mental Health Branch issued a directive to all Community Program Consultants requesting that, for those programs that are cost-shared with other provincial ministries, a copy of the approved budget is sent to the appropriate provincial Ministry for review.

The issues of funding overlap that were identified in the Ministry's internal audit, were forwarded to the Ministry of Housing by the Director of Community Mental Health Branch on February 15, 1990. Subsequent discussions were held with Ministry of Housing representatives in May 1990.

The Branch was aware of the $4 million funding the [recipient] received from the Central Mortgage and Housing Corporation, the Ontario Community Housing Assistance Program and the Ontario Housing Corporation as identified in the Annual Financial Settlements of the program dated March 31, 1991. This funding was taken into account when reviewing the cost-sharing arrangements.

A great deal of improvement has been made in the area of settlement recoveries. This is substantiated by the fact that as of June 30, 1992, 485, or 90 per cent of the 539 funded programs for 1990/92 have submitted their settlement packages. Furthermore, 419, or 86 per cent of the 485 settlements received have been completed. Also, effective for the 1991/92 settlements, interim recoveries will be made immediately from programs with surplus funds.

CMHB, through its program management processes, will consider these surpluses as recommended by the Auditors.

Financial Settlements

With respect to the 1990/91 settlement package, nine programs have not yet complied with our request to submit these forms. No one-time or enhancement funding requests are being considered for these programs. A letter was sent to these programs by the Director indicating that cash flows of base funding will be suspended in September 1992, unless the Settlement Forms are received.

Ministry management will review the staffing configuration of the financial support staff involved in the settlement process.

We assume [your example of 34 programs not filing 1990/91 settlements] is a reference to the 1989/90 Settlement Forms. We are continuing to follow-up with those programs which have not complied with the 1989/90 reporting requirements.

In order to ensure that the balance of the 1989/90 settlements had been received, a follow-up letter dated February 20, 1992 was sent to programs. A letter dated July 8, 1992 was sent to those programs which had still not complied, indicating that cash flows will be suspended effective September 1992 until these Settlement Forms have been submitted. One-time requests for funding from these programs are not being processed.

Branch Expenditures

[The practice of entering into consulting agreements with transfer payment programs] has now been discontinued. The arrangement was put in place at a time when staffing pressures were acute. The intention was to provide an opportunity to enhance co-operation and communication between the Community and the Ministry. Staff in these positions were identified through a competitive process or accepted on agency recommendation.

[The practice of funded programs entering into contracts with outside consulting firms to undertake work on the Ministry's behalf] has now been discontinued. The arrangement was put in place at a time when there was significant pressure on Other Direct Operating Expense funds. The Ministry's Audit Branch had recommended that evaluation of our programs be undertaken expeditiously. The backlog of evaluations (168 programs) has now been addressed and an ongoing evaluation tool has been implemented.

We are attempting to locate the completed rating sheets and interview notes supporting the selection of the successful candidates.

We are currently reviewing the year-end settlements for 1989/90 and 1990/91 to ensure that the funding associated with this project was accurately accounted for. An appropriate recovery will be made if necessary.

Psychiatrists in Northern Ontario

The retention of psychiatrists in Northern Ontario has been an ongoing concern to the Ministry. This issue is a component of a generalized problem regarding the ability of Northern Ontario to attract and retain professionals in the health and social service sectors.

3.09

The Extended Campus Program (ECP) was evaluated by external consultants in October, 1990. Several recommendations were made regarding the program's relationship with the CMHB. Since its inception, the program has had contact with several other Ministry branches, (i.e., Underserviced Areas, Mental Health Facilities Branch, Corporate Policy, Training and Research Branch).

The mandate of the ECP is being reviewed through the current mental health reform strategy. Recommendations regarding the future of the program are expected to be made through this review.

The ECP continues to be funded for the 1992/93 fiscal year. The program has been asked by the Community Program Consultant to submit a budget reflecting their current budget needs. The CMHB plans to make a recovery in the program's base operating budget in 1992/93.

[Regarding the annual fee to the Chair of the psychiatry department], Legal Services Branch is currently reviewing this funding arrangement in order to offer an opinion on whether or not to continue.

Written approval was given by the Community Mental Health Branch for [the Native Mental Health Consultant program].

A memorandum dated January 7, 1988 from the Community Mental Health Branch to the University of Western Ontario confirming authorization for the funding of a Native Mental Health Consultant is on file. However, this Consultant position has not been filled for 1992/93. The cash-flow to the program has been adjusted accordingly.

As indicated previously, the program has been asked by the Community Program Consultant to submit a budget reflecting its current budget needs. The CMHB has initiated a recovery in the program's base operating budget in 1992/93.

MONITORING CARE AND SERVICES

A new Standards and Guidelines Manual developed during 1991 and distributed in early 1992 sets out minimum standards of care along with specific indicators for Homes for Special Care (HSC) staff to use in the assessment and monitoring of these standards.

Specifically, resident staff ratios are identified (1:7) as well as criteria for determining the suitability of HSC applicants (owner/operators) and Home staff.

Currently, the legislation does not give the Ministry authority to screen staff who are most often the direct care givers. However, the guidelines outline Ministry of Health expectations of owners to hire staff who have an understanding of psychiatric disabilities, medication, first-aid and fire safety

procedures as well as requiring a range of responsibilities to be incorporated into staff duties (i.e., resident supervision, preparation of meals, housekeeping, organization of social activities, reporting incidents, etc.).

The new manual also defines very specific food service and record-keeping requirements. In the area of food service, the manual outlines minimum requirements in the kitchen facilities, food preparation, food storage, food supplies, labelling, and nutrition. In the area of record-keeping, the manual devotes a section delineating the records and files to be maintained by the operators as well as setting out reporting and confidentiality guidelines.

Housekeeping and residents' living space is covered in a number of sections of the manual. There are specific guidelines concerning housekeeping and the physical environment, for example, cleaning/sanitizing linens and other household items; garbage storage and disposal, ventilation; and lighting, to name a few.

With respect to water and air temperature, the new guidelines require water to be controlled by a temperature device so as not to exceed 48.89 degrees Celsius, and the air temperature to be maintained comfortably at all times and not be less than 21.11 degrees Celsius.

The new manual goes beyond those items noted. Most significantly, it establishes resident personal care standards and procedures for Home visits and reviews by the HSC staff.

MINISTRY OF HEALTH:

Health Registration System

3.10

In 1990, the Ministry of Health began work on replacing the existing OHIP family-based system with an individual-based registration system for the approximately ten million Ontario residents. By January 1992, over $39 million had been spent on the new system.

We examined managerial planning and control over the development of the registration system. In addition, we examined the controls for the processing of health card application forms, including both automated and manual controls designed to safeguard the data.

Three objectives of our audit were to assess whether:

- the business case sufficiently proved that the selected solution would be the most workable and cost-effective choice from among existing alternatives;
- registration information was reliable; and
- data, software and hardware were adequately secured from unauthorized access and changes or unexpected interruptions.

We obtained information through interviews, observation and the review of available documentation.

CONCLUSIONS AND FINDINGS

During the registration of over ten million persons, the Ministry wanted to ensure speedy registration and continuous health coverage. Admittedly, the Ministry needed to replace the outmoded and unresponsive OHIP system promptly, but it did not develop satisfactory procedures to issue health cards solely to eligible residents.

To compensate, the Ministry had planned to identify ineligible and duplicate cardholders soon after registration, but it had not done so by April 1, 1992. The new individual-based registration system is the cornerstone of the Ministry's plan to reshape Ontario's health care system. Therefore, without effective controls over the accuracy and completeness of registration information, the Province's investment in the registration system is at risk.

JUSTIFICATION

The Ministry had not proved that the registration system and process were the most workable and cost-effective solution, nor could it support $137 million of the $150 million in estimated project benefits.

RELIABILITY

Controls were inadequate to ensure that registration information was accurate and complete. To illustrate, we noted that the Ministry:

- relied on inaccurate and incomplete OHIP information to verify eligibility for approximately nine million registrants;
- had not developed a formal process to ensure registration information is updated for address changes and

deaths since its collection began two years ago;

- had registered as many as 300,000 more than the ten million people Statistics Canada estimated lived in Ontario as of January 1992; and
- had only recently begun to investigate problems with the registration data.

SECURITY

Registration data and software were not adequately secured from unauthorized access or changes or unexpected interruptions. For example, we found that over 12,000 computer users could read and change registration information.

BACKGROUND

Since 1968, the Ministry of Health has managed health care benefits for Ontario residents using a family-based registration system—the Ontario Health Insurance Plan (OHIP). The primary purpose of the OHIP system was to maintain information for the collection of health insurance premiums.

An OHIP number covered an entire family, with premiums often paid by employers. Information changed as people grew up, left home, switched jobs, married, divorced, raised families or retired. Consequently, medical histories could not be reliably traced to particular individuals. Therefore, the Ministry's ability to monitor health care usage and protect confidential medical information was limited. Shortcomings such as these forced the Ministry to change to an individual registration system, with all health care users assigned a unique personal number for life.

In 1986, the Policies and Priorities Board of Cabinet approved the replacement of the existing family-based system with an individual-based registration system.

Ontario was the last province to set up an individual registration system. The chart below compares the health cards issued by each province.

Provincial Comparison of Health Cards

Province	Plastic Card	Magnetic Stripe on Back	Card Renewed Regularly	Name Printed on Card	Address Printed on Card	Birth Date Printed on Card
NFLD.				●		●
P.E.I.				●	●	●
N.S.				●	●	●
N.B.				●	●	●
QUE.	●		●	●		●
ONT.	●	●		●		
MAN.				●	●	●
SASK.	●	●	●	●		●
ALTA.			●	●		●
B.C.	●	●	●	●		●

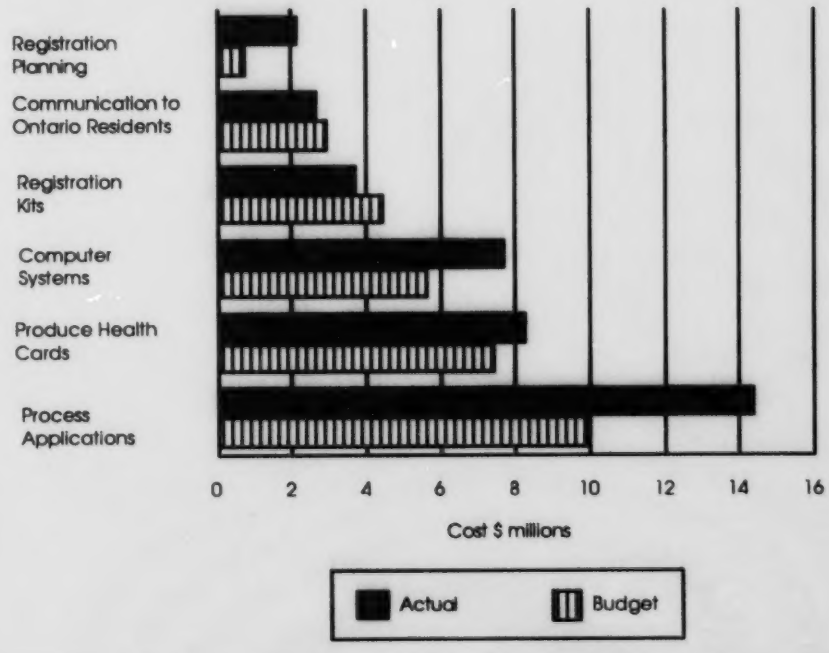
3.10

In January 1989, Management Board of Cabinet approved the Ministry's $97 million Information Technology Strategic Plan, which included the unique health number as the cornerstone for development to serve the Ontario health system well into the next century.

According to the strategic plan, future information technology projects would generate benefits of $1.5 billion over the next ten years, with $150 million attributed to the introduction of the new health card. The Ministry stated that the unprecedented accuracy and reliability of the registration information would greatly enhance its ability to plan for future health needs and tighten control over the fraudulent or unintentional abuse of Ontario health benefits by non-residents.

In January 1990, Management Board of Cabinet approved the registration project at an estimated cost of $31.5 million, with technology development representing $5.7 million. Primarily, costs were for mailing, receiving and processing applications, and producing and distributing the new plastic health cards. In March 1991, the Ministry received approval for project cost increases of $6 million from Management Board of Cabinet, owing to a higher error rate on the applications than originally expected. The chart below shows the budget for each registration activity and the amount spent on each activity.

Actual Cost Compared to Budget



The registration of ten million persons was the largest in North America and the Ministry wanted to ensure speedy registration and continuous health coverage. In the Ministry's bid to get the new system in place as quickly as possible, they intentionally limited eligibility and accuracy verification.

To compensate, the Ministry planned to identify ineligible and duplicate cardholders soon after registration. These post-

registration controls were essential to enhance accountability and to secure the Ministry's investment in the registration system.

Every resident of Ontario can receive Ontario health coverage. A resident is a person:

- legally entitled to remain in Canada;
- who makes a home in Ontario; and
- who is ordinarily present in Ontario.

The Ministry's initial goal was to assign a health number to 8.5 million of the over 10 million Ontario residents by December 1990 at an expected one-time cost of $31.5 million. It expected to register all other Ontario residents in its on-going registration process.

The Ministry mailed applications in April 1990, and, by December 1990, despite a high application error rate, the Ministry had registered 8.8 million persons at a cost of less than $4 per person. As of April 1992, 10.5 million people had been registered.

COMMENTARY

JUSTIFICATION

PROJECT ANALYSIS

Management Board requires formal justification of all information technology projects over $10,000 to ensure that projects meet the Government's needs. The registration project required extensive analysis for two reasons: the project was costly, and many future Ministry of Health projects depended on successful registration.

We found that the Ministry had not adequately analyzed the costs and benefits of some project options. For example, the Ministry decided to assign a new health number to every registrant with an existing OHIP number. However, a powerful incentive for the registration project was the elimination of invalid records existing on OHIP. We concluded the Ministry had not adequately evaluated the costs and benefits of its decision to rely on the former OHIP data as proof of eligibility for free Ontario health coverage.

The Ministry intends to use the information collected during health registration to improve management of health services in the province. We concluded that the Ministry did not adequately consider how they would maintain the accuracy of the information. For example, the Ministry did not evaluate the costs and benefits of alternatives for maintaining current address information.

Four provinces with half the Canadian population renew their health cards at least every four years and print the expiry dates on health cards. This process enables these provinces to update their resident records periodically. The Ontario Ministry of Health does not have a regular renewal process for most cardholders, whereas the Ministry of Transportation does have a renewal system for vehicle and driver registration. We concluded that the Ministry had not adequately evaluated the costs and benefits of setting up such a process.

Because Ontario Health Cards have no system of controls such as the ones used by major credit cards, Ontario hospitals and other health care providers have no way of determining the validity of an Ontario Health Card. For the health registration project, the Ministry did not investigate the cost of installing equipment in hospitals to check the validity of health cards. One Ministry official estimated it would cost less than $5,000 to install and operate this device in a hospital. As well, other methods of card verification, such as hot card listing and telephone hot-lines, were not evaluated. We noted that at least one other province had such systems in place.

3.10

The Ontario Health Card is a plastic card with a magnetic stripe on the back, similar to a bank or credit card. The magnetic stripe contains basic personal information about the cardholder. We concluded the Ministry had not adequately analyzed the costs and benefits of other card alternatives, such as "smart cards" and photo identification cards. Also, the Ministry could not provide us with evidence that they had considered integrating the Ontario health card with any other provincial programs, such as driver licensing.

Expected Project Benefits

The Ministry estimated that registration would result in operating and transfer payment savings of $150 million over ten years. However, it could not provide us with evidence to support $137 million of the projected savings.

The Ministry had expected the new health registration system to eliminate the need for over 200 Ontario hospitals to maintain separate registration functions, resulting in a ten-year savings of $11.5 million. Although the system eliminated some administrative work, hospitals continue to maintain separate registration systems.

RELIABILITY

Registration information is key to the Ministry's plan to reshape Ontario's universal health care system. Relevant, accurate and timely information is essential to successfully managing the Ministry's annual $5.6 billion Health Benefits Program. Planners and program managers require reliable information to monitor demographic and geographic trends, forecast health care needs, assess outcomes of care, and plan and monitor programs.

RELIANCE ON OHIP TO VERIFY ELIGIBILITY

The Ministry identified the control of fraudulent and other abuse of provincial health services as a major benefit of the new registration system. Benefits, however, were lost by compressing the registration period into ten weeks and postponing many verification procedures until after card distribution.

The initial registration process registered approximately nine million Ontario residents. During this phase, the Ministry relied primarily on the OHIP data to verify eligibility. Applicants who provided a current OHIP number and matching surname received a health number without additional documentation, such as proof of residency.

Consequently, individuals who possessed a valid OHIP number but no longer qualified for health care could apply for and receive a health number. Similarly, ineligible individuals who received OHIP coverage through fraudulent means qualified for a new health card.

The Ministry acknowledged that it was almost impossible to detect cases of intentional fraud without pre-registration controls.

In 1987, we reported there were almost 25 million records on OHIP. Because of this, we question the reliability of the data and its suitability as a base for the new health card system.

REGISTRATION INFORMATION

Performing geographical health care analysis was a feasible benefit of the new registration system. Addresses, therefore, are important to identify the location of a target group.

Canada Post estimates that one fifth of Ontario residents move every year. In the two years that the registration system has

been functioning, over one third of the addresses may have become out of date, yet there was no formal mechanism in place to ensure that Ontario residents provide the Ministry with changes of address.

In the spring of 1992, the Ministry began a public awareness program directed at patients to promote the updating of addresses. The responsibility for updating registration information still belongs to the individual.

We also noted that the Ministry used a commercial software package to verify addresses during initial registration, but the same package was not used for the ongoing registration process. Although the card manufacturer notified the Ministry when they encountered problems with addresses, the Ministry never corrected the registration information.

The Ministry also lacked an ongoing means of identifying those individuals who had died, other than notification by the family. Negotiations with the Registrar General for a one-time update of deaths in the province were completed in April 1992.

As the Ministry had not yet developed a regular process to update registration information, the ability of the new system to accurately portray the use of health care services in the province is limited.

Duplicate Registrations

The registration system is the base for building a history of medical services for individuals. Duplicate records compromise the integrity of this data. The Ministry estimated that over 100,000 duplicates exist, chiefly for three reasons:

- submission of two applications with different information by an individual;
- partial registrations resulting from a visit to a doctor or other service before obtaining a health card; and
- data entry errors.

Recording medical services under two separate health numbers compromises the integrity of an individual's personal history and impairs the Ministry's ability to monitor health care services.

Point-of-Service Registration

In July 1991, the Ministry introduced a process to provide temporary 90-day coverage for those individuals who had not yet registered or received their cards. The Ministry required the doctor or service provider to complete a form with the patient's vital statistics. Although the patient signed a residency declaration, the information provided was inadequate to confirm eligibility and the patient had to visit a District Office to complete the application and provide proof of eligibility.

The Ministry did not analyze these partial registrations to determine the cost of this policy and whether ineligible individuals received medical services. Even though this form of registration ended in March 1992, over 350,000 individuals had registered by this process. Over half of these individuals did not subsequently complete the application to fulfil the Ministry's eligibility requirements.

Number of Registrants

All Ontario residents are eligible to receive provincial health care. Statistics Canada estimated the population of Ontario as of January 1992 at approximately 10 million.

The Ministry, however, had registered 10.5 million individuals, a difference of 500,000 records.

Some of these excess records may be a result of duplication or deaths, but some may be the result of misrepresentation. The Ministry estimated there were 300,000 excess records due to duplicate registrations and unrecorded deaths.

In addition, the Ministry estimated in March 1992 that at least 100,000 eligible individuals had not yet registered for health coverage.

The Ministry, therefore, could not explain the difference of as many as 300,000 people. Every 700 cards issued to ineligible or non-qualified persons could potentially cost the Province $1 million a year, based on average annual claims of $1,400.

Post-Registration Verification

3.10

The Ministry had planned a major post-audit after the processing of most initial registration applications. The objectives of this process were to ensure that:

- all applicants for Ontario health coverage were correctly and completely recorded;
- every eligible resident had one health number and received a card; and
- each person issued a health card met minimum eligibility criteria.

The Ministry identified 13 potential areas where problems might exist with registration information. Although registration began two years ago, the Ministry had addressed only one of those areas, namely duplicate records. Also, only three analysts were assigned to this review process, a ratio of one analyst for every 3.5 million registrants.

Errors are unavoidable and at some point, errors become too costly to identify and fix. The Ministry, however, had not determined an acceptable error rate. One other province established a target error rate of 2 per cent by conducting regular field investigations to verify eligibility. However, the Ministry was not planning to visit residents' homes and had not set a target error rate.

MICROFILMING PROCEDURES

The *Freedom of Information and Protection of Privacy Act* requires ministries to retain documentation for one year. The Ministry's record retention procedures require original documentation to be stored for seven years.

In keeping with these policies, the Ministry decided to microfilm all original applications. This ensures the Ministry has a copy of the original application for the following purposes:

- to allow operators to check for possible duplicates;
- to investigate questionable applicants;
- to provide the client's signature in cases of fraud prosecution; and
- to satisfy government policies.

Microfilming of applications was not being consistently done. Our tests suggested that over one million records were not microfilmed. Furthermore, some offices have destroyed original applications.

As a result, the Ministry has a limited ability to decide whether an application is fraudulent or a duplicate.

VALID HEALTH CARDS

A key objective of the registration system was to tighten control over the fraudulent and unintentional abuse of Ontario health benefits by non-residents. A lost, stolen or replaced card could be used improperly for medical treatment. The Ministry issues replacement cards for information changes, but does not require the return of the original cards. Instead, the Ministry tells individuals to destroy the card by cutting it in half. The Ministry, therefore, cannot guarantee the destruction of the original card.

If an individual used an invalid card, the Ministry would reimburse the service provider for the medical care and notify the provider that the card was invalid. Pres-

ently, there is no means for a service provider to confirm the validity of a health card before offering medical service. The Ministry does not publish a listing of invalid or suspect health cards for service providers. Additionally, they do not provide a telephone call-in service for card verification. The Ministry also has not analyzed payments on invalid cards to figure out the extent of losses.

We concluded that the Ministry has paid insufficient attention to the control of invalid or suspect cards.

SECURITY

The *Freedom of Information and Protection of Privacy Act* and the *Health Insurance Act* prohibit the disclosure of personal information. In addition, Management Board Directive 7-3 requires the protection of government information from disclosure, unauthorized use and loss.

The starting point for providing protection is to assign responsibility for the information to a program manager. Before protective controls can be designed, the program manager must assess the importance of the information. Significant factors to be considered include the confidentiality of the information and its strategic importance to government programs.

The registration data is key to the Ministry's long-term strategy to reshape the health care system. The data includes personal and confidential information about all registrants used to decide eligibility for provincially funded health care. However, prior to April 1, 1992, the Ministry had neither assigned responsibility for the information to a program manager nor assessed the importance of the information. Accordingly, the Ministry had not defined access rules and ensured that existing controls over the data were adequate to protect the confidentiality and integrity of the information, as required by Directive 7-3.

ACCESS TO REGISTRATION INFORMATION

We determined that over 12,000 computer users could potentially access and change registration information without authorization. These included:

- over 12,000 Toronto data centre users who could read an unprotected password for a powerful user code on the Kingston data centre and access registration information;
- 54 users who could circumvent existing access controls; and
- 15 former employees who had worked on registration.

We also determined that a weakness in the implementation of the security software would allow any of the almost 1,800 mainframe users to disable access controls entirely.

Contrary to the Ministry's policies, passwords were visible whenever a user changed passwords. Most software packages do not allow passwords to appear on the screen because of the danger that an unauthorized person could see a password and use it to enter the application.

The Ministry has identified several applications for registration information that would require moving the data to personal computers or providing copies of the data to other program areas. The nature of these applications and the extent to which they have copies of registration data was not defined. Also, the Ministry has not assigned accountability for the integrity and confidentiality of the information copied.

RESPONSE

The Deputy Minister of Health responded to our report on August 31:

The introduction of a new method of registration for the Ontario health care system was a major undertaking which presented the Ministry with many challenges. Not least of these was ensuring the continuity of universal health care coverage to Ontario's population at the same time as we sought to alter fundamentally the system of registration. Unlike the family-based registration of OHIP where, according to the 1987 Provincial Auditor's report, up to 25 million participants were identified on the system, the Ministry now has 10.5 million individuals registered for health insurance in Ontario.

3.10

The Ministry accomplished many things during the initial registration project. First and foremost, new Health Cards and Numbers were issued to all residents of Ontario. To protect the confidentiality of health information, new legislation, the Health Cards and Numbers Control Act, 1991, *was enacted to prohibit the collection of the Health Number for purposes unrelated to the provision of health services. At the same time, the Ministry developed new registration computer systems, and retrofitted existing payment systems to utilize the Health Number.*

The initial registration effort was a major first step. Since its completion, the Ministry has acted to build on this achievement. Major initiatives have been:

- *the creation of a Registration Program Branch to secure the investment in the registration system, and to maximize the efficiencies inherent in the individual Health Number;*
- *initiatives to improve existing registration and information processes e.g., newborn registration;*
- *the establishment of registration verification and control functions to ensure that access to Ontario's health care system is adequately safeguarded; and*
- *the introduction of a new Contract Management Office to limit the use of consulting dollars while maximizing the use of internal resources by all program areas in the Ministry.*

These initiatives are based on the Ministry's experience and review of the Health Registration Project and I am encouraged to note that they also address the major observations contained in your report.

JUSTIFICATION

PROJECT ANALYSIS

The introduction of a new, individual registration system was based on extensive analysis by the Ministry. The Registration Project is part of an overall Information Technology Strategic Plan which was the culmination of approximately three years of preparation by the Ministry. In addition, extensive research and analysis of registration requirements, including comparisons with other provincial registration systems, was conducted between 1985 and 1989. Moreover, the requirements of all Ministry programs were reviewed and documented prior to the development of the new system. All of this background preparation figured in decisions that were taken when the Ministry received approval to develop the new system.

The initial registration process deliberately limited eligibility and data verification in the interest of timely registration. A valid OHIP number was accepted in lieu of other supporting documents such as birth certificates or immigration documents. Persons admitted to Canada for a limited period,

such as foreign students or workers, were required to submit documentation. A residential Ontario address was required from all applicants.

To complement this decision, the Ministry also decided to introduce an enhanced verification and control function with responsibility to audit the initial registration system and to take corrective action where warranted. Following on this initial audit, an ongoing function of monitoring and controlling access to Ontario health coverage was also planned.

A Registration Verification and Control Unit has been created with the mandate to verify both the data and eligibility of individuals who have been registered and the process used to register them.

The Ministry has undertaken several initiatives to improve the methods of updating the registration database. These include: improvements to the process for registering newborn babies, negotiation and implementation (effective August 22, 1992) of a direct electronic feed from the Registrar General to update the RPDB with information concerning deaths, information exchanges with other provinces to record interprovincial migration and participation in a National Change of Address Pilot project with Canada Post. Additional discussions have been initiated with provincial and federal officials to investigate access to databases such as driver licensing, Old Age Security and immigration. The conclusion of such arrangements will be designed to assist the Ministry with eligibility verification as well as information maintenance.

Cards issued to persons in Ontario temporarily, such as foreign students or workers, are given an expiry date and must be renewed. The decision not to issue cards with expiry dates to permanent Ontario residents was taken to allow the Ministry flexibility in determining a future card strategy. In particular, the introduction of a regular renewal cycle would entail a significant expense which the Ministry wishes to ensure would be accompanied by corresponding benefits. This strategy will be developed by the end of the current fiscal year.

The possibility of allowing hospitals and other health care providers to use equipment to determine the validity of Health Cards was considered by the Ministry. It was not included as a stand-alone application under the Health Registration Project for several reasons. These include issues related to appropriate levels of access and the protection of confidentiality, and the types of practices or locations where the use of such equipment would be most effective (e.g., service areas with large numbers of unfamiliar clients such as hospital emergency rooms or clinics as opposed to the stable patient-base that might characterize a general practitioner). Moreover, the decision to defer this application for consideration with other parts of the Ministry's strategic plan recognized that the technology and investment involved would provide the maximum benefits if it were applied to a variety of functions.

The Ministry considered a variety of options for the Health Card. A plastic card with a magnetic stripe was selected because basic identifying information could be recorded on the stripe at an acceptable cost, and the technology to use it is already widespread.

The use of SMART card technology was considered by the Ministry. This technology was not adopted for several reasons including the high cost of these cards; the technological infrastructure required to use them, and the need for additional study to determine the appropriate business functions to which such a technology could be applied. The Ministry is currently conducting a smart Card Pilot to assess the potential of targeted applications of this technology.

The use of a photo identification card was not adopted because of the increased cost and complexity that it would have added to the initial registration process. It would have required securing photo-

graphs from 10 million Ontario residents and developing additional technological infrastructure to produce cards incorporating the photograph.

Expected Project Benefits

The projections for cost savings attributable to the registration system are estimates derived from program areas. These were based on minimal projections, e.g., improved eligibility controls could save 1 per cent of claims payment ($11 million annually). It was not anticipated that these benefits would accrue immediately on completion of registration, but that they would be gained over the course of ten years. Moreover, the full realization of the benefits of the new registration system depends on the implementation of other parts of the Information Technology Plan.

3.10 RELIABILITY

RELIANCE ON OHIP TO VERIFY ELIGIBILITY

The initial registration process deliberately limited eligibility and data verification in the interest of timely registration. To complement this decision, the ministry also decided to introduce an enhanced verification and control function with responsibility to audit the initial registration system and to take corrective action where warranted. Following on this initial audit, an ongoing function of monitoring and controlling access to Ontario health coverage was also planned.

A Registration Verification and Control Unit has been created with the mandate to verify both the data and eligibility of individuals that have been registered and the process used to register them. During fiscal 92/93, the unit has several major priorities including: identification and resolution of duplicate registration; analyzing and monitoring card utilization, particularly where multiple cards have been issued; monitoring out-of-country services and border/vacation locations to identify and control eligibility and validating RPDB addresses. Matching the Health Registration Database to other major government databases is also being pursued as a means of determining cases where eligibility requires additional investigation. These systems are being developed in conformity with Freedom of Information and Protection of Privacy policies and guidelines.

In addressing these priorities, the unit is being assisted by a temporary analysis unit which has been assigned the task of assessing the areas of investigation which will yield maximum results. Initial priorities which have been established for this unit include: determining the risk associated with the possible submission of claims after the date of a person's death; developing methods of determining non-residents who may have registered; identifying persons who were eligible when they registered but have subsequently failed to maintain Ontario residency; identifying instances where claims from outside Canada are submitted for temporary residents such as foreign workers or students; developing methods to monitor card utilization, especially where multiple replacement cards have been issued; monitoring payments made in good faith, determining the level of risk associated with duplicate registrations and examining the integrity of date of birth information on the database.

Eligibility is always tested as part of the registration process. In the regular registration process, individuals are required to submit supporting documents such as a Canadian birth certificate or an immigration document. During the initial Health Number registration a valid OHIP number was accepted in lieu of these documents for persons who were permanent residents such as Canadian citizens or landed immigrants. This recognized that many individuals had already established their eligibility in applying for OHIP, and that to require new documents might impede the success of the registration effort. Temporary residents such as foreign workers or students were required to submit documents even if they were previously registered for OHIP. All applicants for a Health

Number were required to provide a residential Ontario address before a Health Card was issued to them.

REGISTRATION INFORMATION

Accurate data and reliable processes for updating it are crucial to the success of the new registration system. For this reason, Ministry created a Registration Program Branch in May 1992. The Branch has been assigned the mandate to secure the investment in the registration system and to maximize the efficiencies inherent in it.

Quality targets for the Registered Persons Database have been identified. Examples of such targets are: 0.5 per cent for deceased persons still on the file, an upper limit of 2 per cent in variation between the database and other population estimates and no more than 5 per cent incorrect addresses. These targets have been established on the basis of audit activities and review undertaken by the Ministry itself. Computer and manual processes to determine that the databases reflects these targets and to investigate and resolved anomalies are being developed.

The Ministry has also undertaken several initiatives to improve the methods of updating the registration database. These include: improvements to the process for registering newborn babies, negotiation and implementation (effective August 22, 1992) of a direct electronic feed from the Registrar General to update the RPDB with information concerning deaths, information exchanges with other provinces to record interprovincial migration and participation in a National Change of Address Pilot project with Canada Post. Additional discussions have been initiated with provincial and federal officials to investigate access to databases such as drivers licensing, Old Age Security and immigration. The combination of these initiatives will provide the Ministry with ongoing processes to maintain the reliability of registration information, including information required for eligibility verification, and reduce its reliance on voluntary reporting of changes. These systems will be developed in conformity with Freedom of Information and Protection of Privacy policies and guidelines.

The use of the first tape supplied by the Registrar General to update the registration database was implemented on August 22, 1992. The initial tape covered all deaths from January 1990 to June 1992. It will be supplemented with six additional monthly feeds. The frequency with which tapes are provided will be assessed and an agreement negotiated on the basis of the results obtained during this pilot period.

Duplicate Registrations

The verification unit is already working with Ministry systems staff on a process to identify and eliminate an estimated 100,000 duplicate health numbers on the registration database. This represents a maximum of 50,000 individuals or 0.5 per cent of the registration database. The required computer program has been developed and is being tested. Implementation of this system is scheduled to take place before the end of Summer 1992. Systems to identify more difficult cases of duplication are scheduled to be implemented with investigation and resolution of cases by the end of fiscal 1992/93. Both systems will be implemented on an ongoing basis. Staffing arrangements are being made to increase the capacity of the verification unit to tackle this workload.

Point-of-Service Registration

This process was introduced as a temporary measure to assist in the transition to Health Number billings. It was discontinued in March 1992.

Under the process, a Health Card and Number was only issued to an individual if the second part of the form was completed to establish eligibility. Coverage was limited to 90 days.

Of the forms submitted through this process 60 per cent were matched to existing Health Numbers. Of the remainder, 47 per cent resulted in a completed registration through the submission of part 2 of the Registration Request Form. The total number of incomplete registrations was approximately 100,000.

Number of Registrants

The Ministry has established an upper limit of 2 per cent as the target for the reliability of the registration database with other population estimates such as Statistics Canada. This target recognizes the fluidity of population movement and changes that will never allow for an exact match.

3.10

Several initiatives are already under way to correct the current disparity between RPDB and other Statistics Canada estimates. These include the use of an automated feed from the Registrar General to update the database with respect to deaths, and implementation of systems to identify duplicate registrations. These initiatives were being implemented during the summer and fall of 1992.

The Ministry will also use the outcome of these initiatives to analyse and determine the extent of any of inappropriate payment by Ministry programs such as Health Insurance or Drug Benefit.

The Ministry of Health does not have an official number of Ontario residents who have not received their Health Cards. It is impossible to determine at any given time what number of Ontario residents are unregistered. The population is not static and residents arrive and depart daily. There is also a group of residents who do not register for a Health Card until health care is required.

Post-Registration Verification

The Ministry has established a Registration Verification and Control Unit with the mandate to verify both the data and eligibility of individuals who have been registered and the process used to register them. The unit has responsibility both for developing systems to identify areas requiring investigation, and for investigating and resolving individual cases.

During fiscal 1992/93, the unit has several major priorities including: identification and resolution of duplicate registration; analysing and monitoring card utilization, particularly where multiple cards have been issued; monitoring out-of-country services and border/vacation locations to identify and control eligibility and validating RPDB addresses.

In addressing these priorities, the unit is being assisted by a temporary analysis unit which has been assigned the task of assessing the areas of investigation which will yield maximum results.

Staffing arrangements are being made, through redeployment of existing resources, to increase the capacity of the verification unit to tackle the workload that will arise as initiatives are implemented. The analysts assigned to the unit are primarily responsible to develop systems and procedures utilizing the registration database to identify areas requiring investigation. Additional staff will be responsible for investigating and resolving individual cases. This complement will include field inspectors.

MICROFILMING PROCEDURES

The Ministry is reviewing microfilming requirements with regard to factors such as the legal need for a copy of a signature, program managers' responsibilities to reduce unnecessary record collection and maintenance, the acceptability of electronic records, and the availability of alternative technologies. The Archives of Ontario has already been contacted for advice in these matters. Recommendations for a revised record retention schedule will be complete by the end of the current fiscal year. In the meantime, policies and procedures regarding microfilming are in place and all offices have been reminded of this requirement.

The destruction of original applications at some offices was a one-time occurrence and was rectified. A record retention schedule is in place for all registration applications.

VALID HEALTH CARDS

The Ministry maintains an accurate record and count of all Health Cards that are issued. This includes both initial and replacement cards. Replacement cards are identified by an alphabetic version code which is recorded and required on claims submissions. The development of additional systems and procedures to monitor the use of cards for services is scheduled for the first quarter of 1993.

In many instances, replacement cards are issued because the original is reported as lost or stolen. In such instances, the individual is unable to return the card. Cards reported as lost or stolen are recorded as such on the registration database.

The possibility of allowing hospitals and other health care providers to use equipment to determine the validity of Health Cards was considered by the Ministry. It was not included as a stand-alone application under the Health Registration Project for several reasons. These include issues related to appropriate levels of access and the protection of confidentiality, and the types of practices or locations where the use of such equipment would be most effective (e.g., service areas with large numbers of unfamiliar clients such as hospital emergency rooms or clinics as opposed to the stable patient-base that might characterize a general practitioner). Moreover, the decision to defer this application for consideration with other parts of the Ministry's strategic plan recognized that the technology and investment involved would provide the maximum benefits if it were applied to a variety of functions.

The algorithm to determine that a number is a valid number is available to providers and is usually incorporated in billing software. A claim containing an invalid health number will not be paid.

SECURITY

The Ministry has always placed the highest priority on protecting the confidentiality of personal information which it receives.

Registration information is collected and disclosed in a manner that is consistent with the provisions of the Freedom of Information and Protection of Privacy Act *and the* Health Insurance Act. *The newly formed Registration Programs Branch has been assigned responsibility to ensure that existing standards are being met, and to propose additional policies and guidelines that may be required for the Registered Persons Database. A review of both systems and operational security will be completed and recommendations for improvements made by the end of the 1992/93 fiscal year.*

In the meantime standing security provisions are in place, including computer security software and operational security manual, procedures and training.

ACCESS TO REGISTRATION INFORMATION

Only persons who require it to perform their job are provided with access to RPDB by the Ministry. This access is controlled by standard computer security processes and the Ministry maintains a master list of persons who have been given access.

The specific problems noted by the auditor have been corrected; however, the general issues that they raise will be addressed in the security review of RPDB.

3.10

- *The password which could potentially be used by 12,000 Toronto data centre users was removed from the file in February 1992, and to ensure that the userid involved has not been compromised, the password to it has been changed. Furthermore, additional checks have been made for other hardcoded passwords at the Kingston Regional Computer Centre and in Toronto Development and Production Centres.*
- *The number of users who could circumvent existing access controls has been reduced to 34. This includes eight security people who are required to have full access to fulfil their security responsibilities. This review is continuing to identify the possibility for further reductions.*
- *All but 2 of the 15 userids have been identified. The two that have not been cancelled are for persons who are working in the Ministry.*

The password for turning off the Resource Access Security facility has been changed from the default value to which it was previously set. In this respect, it is important to note more than one person is required to turn off RACF. In addition to knowing the password, a reply would also be required from the operations console.

A modification of screens to eliminate display of even the new password [when passwords are being changed] is being investigated. Changed passwords are only displayed on the screen when the action of changing the password is occurring. This prevents clerical error (keying mistakes).

[Responsibility for the integrity and confidentiality of information copied to personal computers or other program areas] has been assigned to the Registration Program Branch. Policies and guidelines will be developed as part of the security review.

MINISTRY OF HOUSING:

Microcomputer Network

There are more than 35,000 computer workstations in use in Ontario ministries. Two out of three are personal computers, and almost half are connected to a microcomputer network. Ministries typically use the networked microcomputers for end-user computing and office automation, which together account for one quarter of the more than $450 million spent in fiscal 1990/91 on information technology.

We felt that microcomputer networks should be reviewed because of the increasing significance of this technology, and we chose the Ministry of Housing's network for audit because it is one of the largest in the Ontario government.

In June 1991, the Ministry of Housing received approval for its five-year office automation strategy, entitled *Information Management Strategic Plan*. This strategic plan included a $4.9 million project to install microcomputer networks across the Ministry. By the end of 1991, the Ministry had spent $1.2 million on microcomputer networks.

The objectives of our audit were to assess whether:

- the business case sufficiently proved that the selected solution would be the most workable and cost-effective choice from among alternatives; and
- system resources were adequately secured from unauthorized access and changes or unexpected interruptions.

We obtained information through interviews, observation and the review of available documentation. We limited our review to the local area network at the Ministry's head office. We did not review other Ministry offices located off these premises nor Ministry of Municipal Affairs offices with access to the network.

CONCLUSIONS AND FINDINGS

JUSTIFICATION

The Ministry did not conduct appropriate analysis to prove the network solution as the most workable and cost-effective choice from among existing and alternative solutions. Given the inappropriateness of the Ministry's analysis, we could not conclude on the cost effectiveness of the Ministry's purchase and implementation of the network. In particular, we noted that:

- a separate business case for the purchase of the network was not provided to Management Board as required;
- alternative network software products were not thoroughly analyzed by the Ministry;
- the Ministry's strategic plan omitted some necessary expenses; and
- the Ministry purchased a non-Canadian electronic mail product, although its data suggested that a Canadian product was more suitable to its needs and less expensive.

SECURITY

Since the Ministry did not provide us with timely and direct access to the information necessary to complete the full scope of our audit program, we could not conclude

whether the Ministry had adequately secured data and software from unauthorized access or change. Still, we did find that:

- user accounts without passwords could access the network, and could read and change personal information about private citizens and Ministry employees; and
- the Ministry had not established, documented or communicated security policies and standards to employees.

3.11

BACKGROUND

A microcomputer network consists of several microcomputers linked by cables and communications software within a geographically small area such as an office building. These networks allow multiple users to share data, files and programs within the system. Applications can include electronic communications such as mail and messaging, office administration functions such as word processing, and the exchange and sharing of corporate and confidential information.

Microcomputer networks are a strategic component of the Ministry of Housing's technology architecture. The Ministry has nearly 1,000 networked personal computers, the third largest total in the government. The total number of personal computers has grown from 1 in 1983 to over 1,500 in 1992.

In the fall of 1985, the Ministry began to investigate the use of computer networks to enhance service delivery. In 1987, networks were installed at seven Ministry test sites, at a cost of nearly $400,000, to evaluate the impact of network systems on the workplace, and to establish guidelines for future network implementations. In June 1991, the Ministry's approved *Information Management Strategic Plan* forecast nearly $5 million for network implementation. This plan called for networks in each work group within the Ministry and office automation software for electronic mail and scheduling.

The Ministry of Housing's Information Technology Services Branch supports stand-alone microcomputers and networks that additionally can communicate with other microcomputers, networks or the mainframe. These systems support the head office, regional offices and agency offices.

For instance, over 20 Local Housing Authorities of the Ontario Housing Corporation, located throughout the province, are able to communicate and share information with the Ministry's head office. The Ministry provides support to applicants for assistance to such programs as the Federal-Provincial and Municipal Non-Profit Housing Program, Ontario Home Renewal Program, Ontario Community Housing Assistance, Tenant Placement, Social Housing Development Assistance, and Rent Supplement.

COMMENTARY

JUSTIFICATION

In 1991, Management Board approved the Ministry's entire information management strategic plan — the $4.9 million network was one of 39 identified strategic projects. The Ministry did not provide a separate business case to Management Board for the purchase of networks. Directives 7-1 and 7-2 require the development of a business case and Management Board's approval of the costs and benefits for information technology projects that cost more than $500,000 over four years.

Our review shows that alternatives to the selected network were not thoroughly analyzed by the Ministry. For example, it

did not evaluate the costs associated with each component of the network. Instead, the Ministry relied on staff's previous knowledge and use of these products. Such an approach is not sufficient for product comparison, and violates the requirements of Management Board Directive 1-8. This Directive requires management to consider the broadest range of options, and to include costs for all practical alternatives in a submission to Management Board. This was not done.

The calculation of total estimated costs did not include all costs necessary to meet the objectives of the network project, contrary to Directive 7-1. The Directive requires management to include all costs necessary to meet defined project objectives. The Ministry did not include software installation costs, system analysis time, conversion of existing systems and programming resources. As well, some benefits attributed to a network were questionable, such as citing the reduction of paper note pads as a productivity improvement.

The Ministry conducted a study of electronic mail products available in the marketplace. It evaluated and scored these products against a pre-defined, comprehensive set of mandatory criteria. We found that the scores granted to the products were not always consistent with the underlying data presented in the same report.

Furthermore, none of the products evaluated met all mandatory requirements, and the Ministry's own data suggested that a Canadian product better met Ministry requirements, and cost less to purchase. This Canadian product was also used in other ministries, and should have been a preferred selection according to Directive 2-1.

SECURITY

Under various programs, the Ministry maintains and processes confidential information about Ontarians, such as their name, date of birth, financial status, spousal and dependent status, and grant status.

The *Freedom of Information and Protection of Privacy Act* and Directive 7-3 require ministries to safeguard confidential information. Security measures must ensure that individuals are protected from unauthorized use and disclosure of personal information.

Proper implementation of control features within the network software would be an effective first step in ensuring the confidentiality of the private data maintained by the Ministry. However, we were able to access the network with user accounts that did not need a password. Anyone with access to any of the almost 1,000 networked microcomputers in the Ministry of Housing or the Ministry of Municipal Affairs connected to the network could have logged in with such user accounts. With these user accounts, we could read private information about applicants to the Ontario Home Renewal Program for the Disabled, including financial information, financial and grant assessments made by the Ministry, and marital and dependant-related data. In addition, we gained similar information about applicants to the Non-Profit Tracking System and personal salary information for 50 Ministry employees.

The general availability of this information violated both Management Board Directive 7-3 and the *Freedom of Information and Protection of Individual Privacy Act*.

The Ministry had not established, documented, or communicated security policies and standards to employees. They informed Management Board that a security plan was to be developed by the end of 1991 consistent with Directive 7-3. As of February 1992, the Ministry did not have a draft of this plan, again a contravention of the Directive.

Without formal policies and standards, Ministry staff were not provided with adequate security guidance. For example, network administrators were never told to restart a user's microcomputer when helping with problems. By not doing so, they exposed their passwords to unauthorized individuals. Because of the lack of a secure procedure, we obtained the accounts and associated passwords for three privileged users. With these accounts, we could read or change anything on the system.

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The Ministry did not make use of password administration policies or techniques provided by the operating system to improve security. For instance, we noted over 500 user accounts that did not require password changes. It was possible that many of these user accounts still had their original assigned passwords.

In addition, the Ministry had not developed tools for tracking and measuring the reliability of the network. The Ministry had never quantified the cost of network outages. On the basis of industry averages, outages could cost the Ministry over $1 million per year. Management must identify and track various errors. By tracking and controlling errors during operations, the Ministry could make improvements in service.

RESPONSE

The Deputy Minister of Housing responded to our report on August 17:

JUSTIFICATION

As you pointed out in your report, Management Board of Cabinet had approved our Information Management Strategic Plan in 1991, including $4.9 million for a microcomputer network. By the end of 1991, we had spent $1.2 million. Prior to this approval, we did obtain Management Board approval for the implementation of LANs from 1987 to 1990.

Much of the recent expenditure was related to the consolidation of existing Local Area Networks into a Ministry-wide system. Business cases were prepared and approved for each element of this consolidation process.

Overall, we are of the view that we have complied with the spirit of the Management Board Directives.

We are confident our choice of a Local Area Network was the most cost effective and efficient choice of technology at the time the decision was made. As noted in your report, in the fall of 1985 we began to investigate alternative networking options and, in our opinion, a microcomputer Local Area Network was the best option. You should also note that this option has proven to be the trend both in the public and private sectors.

We attempted to include all quantifiable costs for the implementation of the Local Area Network in the Information Management Strategic Plan. The missing items listed in your report, "software installation costs, system analysis time, conversion of existing systems and programming resources", were opportunity costs which, we felt, did not represent additional costs to the Ministry and so were not included.

Although the Canadian product was less expensive, your report omits the fact that it failed to meet one of the mandatory requirements indicated in our Request for Proposal for electronic mail soft-

ware. In our view, we adhered strictly to the terms set out in the Request For Proposal and our selection was appropriate and fair to all the vendors.

You should note that as a result of similar competitive processes, at least four other ministries have selected the same electronic mail software.

SECURITY

We appreciate your comments on security. However, as previously noted, the LAN was being installed at the time of the audit, and this should be taken into account in the discussion of the deficiencies.

Limited access to a few Local Area Network functions is required by the operating system maintenance software. When these accounts were established with severely restricted access, it was deemed that passwords were unnecessary. As your audit pointed out, this access was not sufficiently restricted and has since been further restricted.

We agree that information systems security policies and procedures are important and we had intended to develop them by the end of 1991. Due to a number of factors, including budget constraints, the ongoing implementation of the LAN and unfilled staff positions, on December 16, 1991, we advised Management Board of Cabinet we would be unable to develop and implement security policies and procedures until 1993. This is still our intention. Notwithstanding, it should be noted that we have produced computer security information packages for all employees and the E-Mail is also being used as a communication tool for this purpose.

At the time of the audit, the Ministry was implementing a problem tracking system which provides detailed reporting of LAN-related problems. The system is a key feature of our Help Desk system and is now operational.

MINISTRY OF HOUSING:

Non-Profit Housing

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Since 1986, when the Province assumed responsibility for administering non-profit housing programs, some 38,000 of 46,600 unilaterally funded units have been approved for construction together with over 35,000 units which were cost shared with the federal government. The total capital cost of the 46,600 provincial units alone is projected to be $5 billion. Annual operating subsidies will approach $1 billion by 1995, when all 81,600 units are to be completed and operating. In addition, the most recent budget announced a further 20,000 units with an estimated annual operating subsidy of $200 million on completion.

We assessed the adequacy of the Ministry of Housing's:

- controls over project selection and development; and
- controls over completed projects, including efforts to monitor costs, results, and compliance with program guidelines.

Our conclusions and findings are based primarily on our review of projects approved since 1986 in three of six regional offices (Central, Eastern and Southern). We visited projects in each of the three regions.

CONCLUSIONS AND FINDINGS

SELECTION AND APPROVAL OF HOUSING PROPOSALS

The review and approval of over 70,000 assisted housing units in five years was a significant and costly undertaking. The task was made even more costly by pressures to meet inflexible annual deadlines and to cope with a real estate market which was booming through much of the late 1980s. Consequently, the controls in place to ensure projects were only built where needed and at a competitive cost were less than satisfactory, due primarily to the Ministry's need to expedite the approval process with fewer experienced staff than were required.

- Need and demand studies were not thorough, and so a number of projects were allocated to communities with high vacancy rates and little demand for "market rent" units. Filling vacant market rent units with "rent-geared-to-income" (RGI) tenants raises future subsidies over projections and may jeopardize the program's income integration objectives.
- Despite a significant decline in land prices and construction costs after 1989, the cost of projects approved for go-ahead in 1990 and 1991 continued to increase, particularly in Central Region.
- The practice of approving purchases of land and rental properties using "highest and best use" appraisal values was very costly. Projects were also made more costly by failing to examine recent land transactions before approving land values and by not using competitive procurement practices whenever possible.
- In the absence of competitive procurement practices, the allowable maximum unit price became a target price for developers rather than a ceiling, adding to development costs.

However, the Ministry conducted satisfactory reviews of site plans before approval. As well, monthly on-site inspections ensured that projects were built according to approved plans and that progress payments to contractors were justified.

COMPLETED PROJECTS IN OPERATION

The Ministry's controls were less than satisfactory to ensure that completed non-profit housing projects were managed in a cost-effective manner and in compliance with program objectives and guidelines.

- Operating agreements were not yet in place to clearly establish financial control and accountability between non-profit housing providers and the Ministry. Key aspects of the relationship, including ownership, tenant selection, and reporting and audit requirements, need formal agreement.
- Over 25 per cent of the projects we reviewed lacked approved operating budgets, either because budgets and audited financial statement information had been filed late, or because the Ministry had not yet reviewed them. Several had still not been filed.
- Controllable operating costs such as labour and administration were high, particularly in Central Region.
- Our visits to projects indicated that those groups had adequately verified income and determined eligibility for RGI tenants. However, multiple waiting lists and inconsistent placement criteria and referral practices make it unlikely that those in need of affordable housing will be treated consistently, equitably and efficiently.

BACKGROUND

In 1964 when the federal government shifted responsibility for the production and administration of public housing to the provincial governments, the Ontario Housing Corporation (OHC) was established to provide rent-geared-to-income accommodation to households in need.

OHC's first public housing projects provided affordable shelter but they often did so in high-density apartment blocks. However, in the early 1970s, both the federal and provincial governments recognized that developing socially and economically integrated housing was preferable to physically segregating the less well-off.

Consequently, the objective of assisted housing became to not only provide decent, affordable housing, but also to avoid such "ghettoization". This meant that public housing projects had to be built alongside private-sector housing, and that each project should be occupied by both market rent and RGI tenants.

With this in mind, the Canada Mortgage and Housing Corporation (CMHC) introduced two major programs in the early 1970s—the rent supplement program and the non-profit housing program.

The rent supplement program pays private sector landlords the difference between the monthly rent that an RGI tenant can afford and the actual rent. While rent supplements cost significantly less in government subsidies and address the affordability problem of tenants, they do not increase the supply of housing units.

The non-profit housing program was originally designed by CMHC to increase the supply of rental housing stock. Funding was provided for community-based groups to build, own, and manage buildings having 25 to 40 per cent of tenants with low incomes. Three types of community groups were eligible—municipal non-profit housing corporations, private non-profit organizations such as church or ethnocultural organizations, and co-opera-

tive non-profit groups formed by private citizens.

In 1986, administrative responsibility for approving and monitoring the projects was transferred to the provincial level with CMHC paying 60 per cent of the cost of housing the most needy tenants. Non-profit housing then became a very significant component of the Province's broader *Assured Housing Strategy*.

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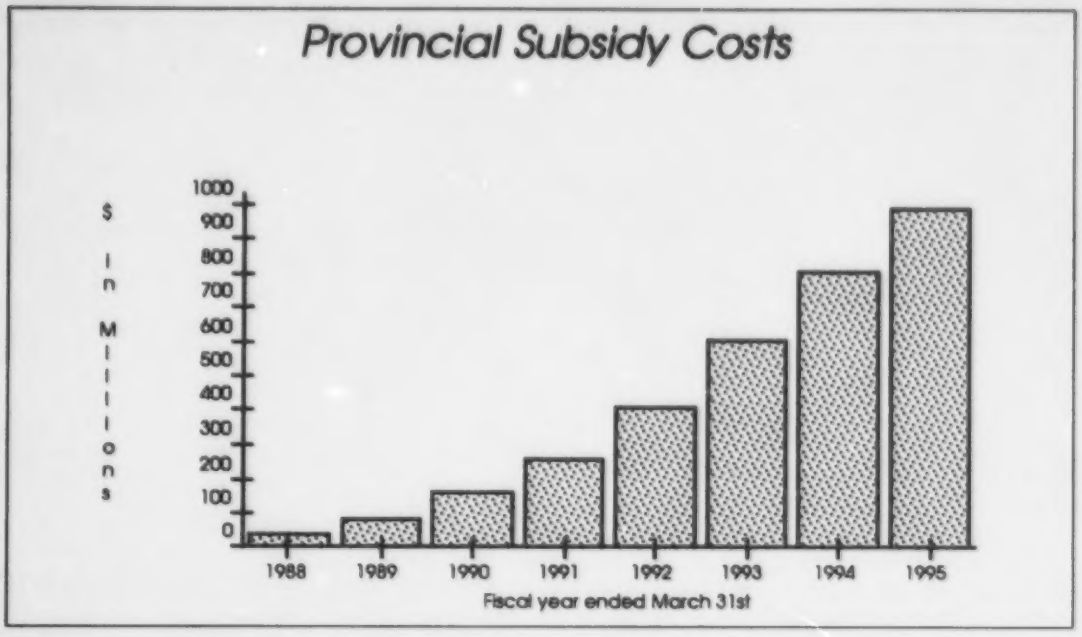
In 1988, when national vacancy rates in private sector multiple unit buildings across Canada almost doubled, CMHC began to significantly cut back on its commitment to building additional non-profit rental units.

Although the national vacancy rate had increased significantly by 1988, in Ontario there were still communities—especially in the Metropolitan Toronto area—where vacancy rates were quite low. The Province was also aware that the private sector was not developing rental properties.

Accordingly, as the federal government eased off its commitment to build more non-profit housing units in 1988, the Province initiated a number of unilateral programs for which it would provide 100 per cent funding. By December 31, 1988, the Province had announced unilateral funding for 36,600 units under three major non-profit housing programs. In 1991, funding for another 10,000 units was announced.

As of December 31, 1991, project submissions for about 38,000 of these 46,600 units had been approved together with some 35,000 federal/provincial units. The majority of the 46,600 provincial units will be constructed in fiscal years ending March 31, 1993 and 1994 with total capital costs approximating $5 billion. Of these costs, about $1.15 billion is being financed by 18- to 20-year interest-only mortgages issued from funds borrowed from the Canada Pension Plan. The remainder are being financed by 35-year mortgages with private sector lenders, guaranteed by the Province.

Along with the monthly mortgage payments, there are a number of major operating expenses such as utilities, property taxes, building maintenance and tenant administration. In total, the average monthly carrying cost per rental unit is substantially greater than the rent received from both market rent and RGI tenants, resulting in an average annual subsidy per unit of about $12,500 ($15,000 in Metropolitan Toronto). By 1995 when over 81,000 units are completed, total provincial subsidy costs will approach $ 1 billion annually as can be seen from the following chart.



The above costs do not include the costs of OHC's housing operations which totalled almost $500 million in 1991 (about one half was paid for by the federal government).

COMMENTARY

SELECTION AND APPROVAL OF HOUSING PROPOSALS

Community-based groups can apply to the Ministry of Housing for sponsorship of a non-profit housing project. Applicants can propose to purchase or lease existing buildings, or construct new ones. A limited number of housing units is allocated to each region of the province, and the Ministry reviews applications. Applications must include need and demand justifications, a targeting plan for serving tenants of varying income groups, the suitability of potential sites, and relative cost effectiveness based on estimated capital costs. If implemented effectively, these controls would ensure that non-profit housing would be built where it is most needed, in the most cost-effective manner possible.

EXPEDITED APPROVAL PROCESS

Staff in the three regions we examined faced significant pressure to approve federal/provincial projects by December 31 each year. After that date, federal funds for that fiscal year would lapse. Staff usually had four months between the time they learned of the number of units allocated under the federal/provincial program and the December 31 deadline for commitment of funds. Regional staff were instructed to commit as many units as possible in that time period in order not to lose any federal allocation to the province. As well, staff were under pressure to deliver the significant and increasing number of new units unilaterally funded by the Province since 1988. As a result, projects have been hurriedly approved to meet commitments.

While the program has grown significantly since 1988, resources allocated to the proper review and approval of projects have not increased proportionately. The situation was especially serious in Central

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Region, which was required to deliver many large and complex projects with few experienced staff. One result of this pressure on Ministry staff is that thorough needs analyses were not being done. Most applications we reviewed relied solely on waiting lists from local housing authorities and left out other pertinent aspects such as future development plans, the vacancy rates and likely demand for market rent units in the area. In fact, since 1988 the Ministry did not require any need and demand studies for projects in communities with vacancy rates below 1 per cent.

Consequently, project selection often depended more on other selection criteria such as the availability of suitable land and the readiness of the sponsoring group to proceed. Despite a fair share model intended to ensure that federal/provincial projects were only built in areas of greatest need, this model was not adhered to, and some areas received significantly more units than vacancy rates dictated. For example, over the last five years, units were over-allocated in the Oshawa region by 180 per cent, in the Kitchener region by 39 per cent and in the St. Catharines/Niagara region by 15 per cent. All three areas had higher than average vacancy rates in both the local market and in non-profit housing projects we examined.

For 30 projects we examined that had filed occupancy data for their latest year, the average monthly vacancy rate was a relatively high 6 per cent. Southern region projects had the highest average vacancy rate at 10 per cent.

Proper need and demand studies should have addressed the need for, and availability of, market rent units, not just rent-geared-to-income units.

VACANT UNITS AND INCOME INTEGRATION

One key objective of the program is to achieve a mix of both subsidized and market rent households within each project in order to provide economic and social integration and to prevent community resistance and a "ghettoization" mentality. However, our review indicated that projects in all three regions had difficulty competing with the local private rental market and, as a result, could not meet their approved targets for the designated number of market rent units. In order to fill vacancies created by this lack of demand for market rent units, most projects had filled these units with rent-geared-to-income tenants. On average, about 16 per cent of market rent units were either vacant or occupied by RGI tenants throughout the year in projects we examined.

In fact, the average income mix in completed projects is closer to 75 per cent RGI tenants. In a sample of 30 projects the proportion of RGI tenants varied significantly among regions: 62 per cent in Central, 84 per cent for Eastern, and 77 per cent for Southern.

This requires higher levels of subsidies than were originally approved and threatens the program's income integration objectives.

CONTROL OVER DEVELOPMENT COSTS

Expected Decline in Costs Not Realized

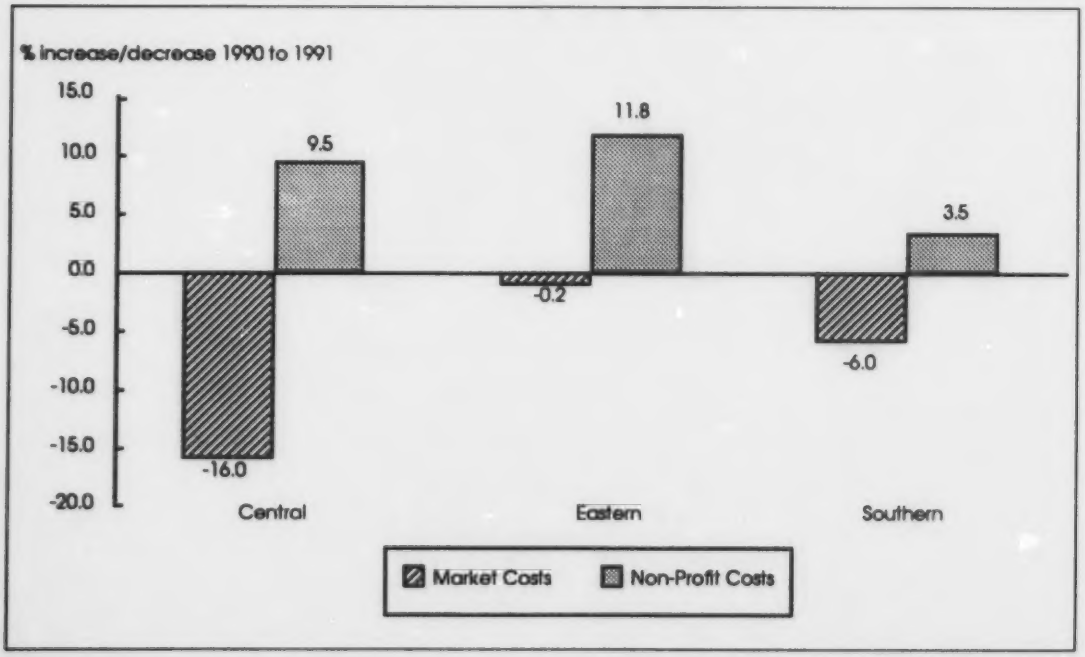
In assessing the effectiveness of Ministry procedures to ensure that costs were kept under control, we recognized that land and construction costs were atypically high during the housing boom from 1987 to 1989 and, accordingly, certain costs could have

been beyond the Ministry's control. However, once the 1987-1989 boom was over, land prices and construction costs began to decrease throughout Ontario. This was particularly evident in Metropolitan Toronto where, according to a Ministry study, an 800 square-foot two-bedroom apartment that cost $156,000 in 1989 could be built for less than $106,000 in 1991, including a 20 per cent profit for the developer.

Accordingly, our review was concentrated on those projects that were approved during 1990 and 1991 to see whether the decline in costs after 1989 was reflected in Ministry projects. Specifically, since a non-profit group could not buy the land nor commit to construction contracts until the Ministry had approved the project, we expected that lower land prices and a more competitive construction environment would be reflected in lower per unit costs.

However, we calculated the average cost of a sample of 12 projects approved in 1990 and 1991 in Metropolitan Toronto to be $158,000 per two-bedroom equivalent units, even higher than the prices at the peak of the housing boom.

We also performed an analysis of all those projects approved in 1990 and 1991 in the three regions we visited. In these regions, the Ministry approved 241 projects encompassing 15,621 two-bedroom equivalent rental units with projected costs totalling $1.86 billion. Using Statistics Canada's new housing price index (including building and land costs, but excluding luxury condominiums) by region as the market benchmark, our comparative analysis indicated the following:



Even if the costs of projects approved in 1990 were comparable to market costs, the projects approved in 1991 totalling $1.16 billion would have cost over $200 million less had approved costs dropped in line with market prices.

Since the acquisition of existing rental properties from the private sector is less costly than new construction, this option was allowed in project proposals. We noted that the trend of declining prices for new construction in 1990 and 1991 also occurred in resale rental properties. For

instance, at the peak of the market in 1989, rental apartment buildings in Metropolitan Toronto were selling at an average price of $70,000 per unit. A survey conducted for the Ministry showed that the average Toronto rental unit re-sale price had dropped to $51,000 in 1991.

Given such declines we reviewed those buildings that had been approved for acquisition in 1990 and 1991 to see if the proposed prices to be paid reflected the decline in market prices.

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The Ministry approved the purchase of 127 two-bedroom equivalent units (excluding those for special-needs tenants and those involving rehabilitation or construction) in the three regions and paid an average cost of $140,000 per unit. This was substantially higher than the going market rate.

In an attempt to see why the cost of non-profit rental units was high, we reviewed a cross section of 40 completed projects in these three regions. Several reasons were apparent from this review.

Highest and Best Use Appraisal Value

One reason for the cost being higher than the going rate in the marketplace was the Ministry approving real estate purchases at the "highest and best use" price. For instance:

- One rental apartment building which was rejected by the municipality for conversion to condominiums was subsequently offered for sale as a non-profit project. The highest and best use appraisal assumed that the building could be converted to a condominium, which resulted in the Ministry paying $1.5 million more than appraised market value.
- Another building with an appraised market value of $5.7 million was acquired for $7.9 million. The highest and best use price was based on a municipal zoning provision which allowed for intensification for social housing projects. To intensify the site, two additional stories would need to be added, but this would have been neither structurally sound nor economically viable. Yet the price paid assumed these two stories could be added. Even the Ministry appraiser stated that the Ministry should only pay the price associated with the private market density, as this is what the typical buyer would pay.

Highest and best use values sometimes ignored recent market transactions. We noted a few cases where parcels of land were purchased and then re-sold shortly afterward to the non-profit group at a significant profit. In fact, in two cases the land was purchased and quickly re-sold with profits amounting to $135,000 and $265,000 respectively.

On another project, a non-profit group paid $2.85 million for less than two acres of land based on both an outside and a Ministry appraisal, yet the land had been purchased two weeks earlier by a related sponsoring group for $250,000 per acre. This indicates that the sponsoring group realized a $2.3 million profit. We conducted a title search of similar land in the surrounding area, including an adjacent parcel of land, and noted all previous recent sales were under $300,000 per acre.

Competitive Procurement Practices

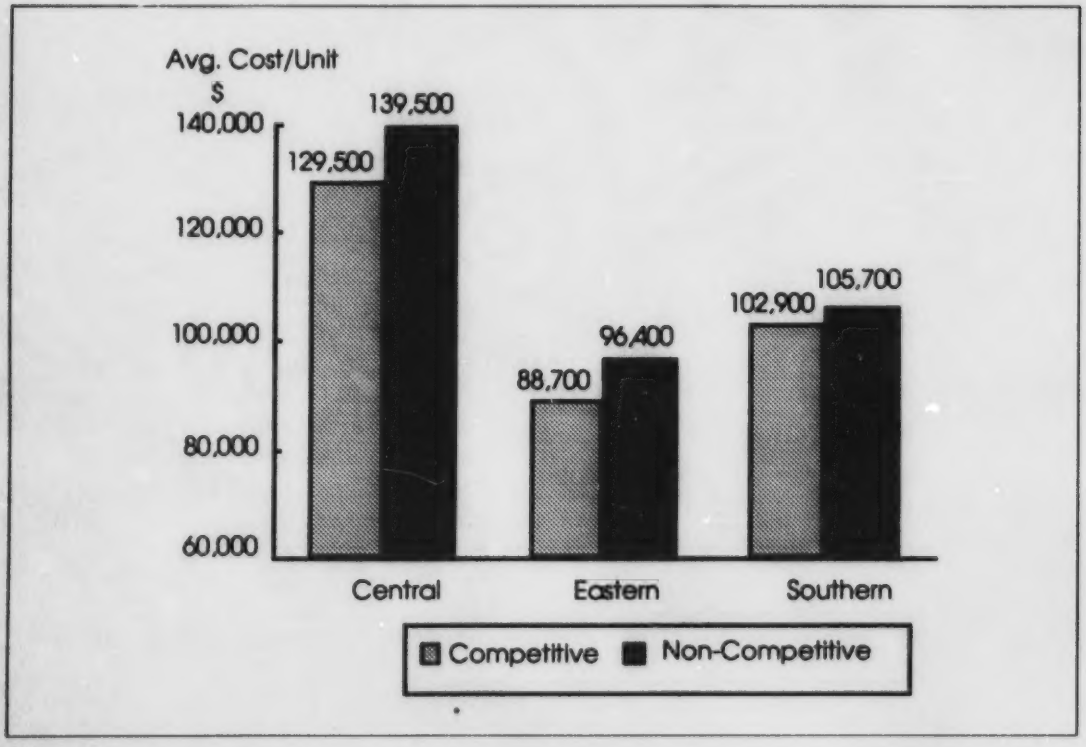
During the boom years, it was difficult to secure suitable sites for social housing, particularly in large urban centres such as Metropolitan Toronto. Developers had more profitable uses for their land and non-profit groups often could not control how the developers chose to make land available.

However, in 1990 many developers who had speculated on the housing and condominium boom up to 1989 were left holding land and/or completed buildings that they

could not sell. As a result, many developers submitted their projects for non-profit housing. With the developers being squeezed by interest and the other carrying costs, the climate was ripe for the Ministry and project sponsors to get very competitive prices from competing developers.

Accordingly, we expected that competitive procurement practices used in the building industry such as public, invitational and pre-qualification tenders would have been fully utilized. However, we noted that to accelerate the process the Ministry and groups often negotiated with those developers who submitted proposals rather than providing an equal opportunity to all qualified developers.

To assess the impact of this approach we converted all units to two-bedroom equivalents and compared the average price of 8,156 units acquired in the three regions in 1990 and 1991 under non-competitive methods to the 7,468 units acquired through some competitive process in the same period. Our analysis indicated the following:



If all three regions had been able to obtain their non-competitively acquired projects at unit prices comparable to those acquired competitively, the capital cost savings would have been approximately $64 million.

In investigating the reason for the relatively better success of Southern Region in negotiating competitive prices, we noted they were the only region to use a computerized database to track market construction prices accepted by developers. This database proved to be a valuable negotiating tool when dealing with developers.

MUP Not Adjusted When Costs Declined

The maximum unit price (MUP) concept was developed by CMHC as a means of

allowing non-profit housing sponsors some delegation and discretion in project design while maintaining some control over costs. We agree that the concept has merit as long as separate MUPs are established for various areas of the province and these are periodically adjusted to reflect changes in local land and construction costs.

While MUPs were established in conjunction with CMHC for each area, we were concerned that adjustments to MUP were made when market prices were going up but not when prices were declining. For instance, MUP was increased three times during 1989 to reflect adjusted prices during the housing boom, but not when prices were declining in 1990 and 1991.

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We felt this was necessary as many project sponsors and developers saw MUP as the target price to build to. In fact, one regional manager stated that many developers questioned whether the Ministry would challenge proposed prices which were less than MUP.

The Ministry's position was that MUP is the maximum price only and that cost savings would be achieved through effective negotiations.

Ministry data showed that, province-wide, 1991 federal/provincial projects were approved at between 94 per cent (Central) and 99 per cent (Eastern) of MUP. However, as stated earlier, prices have dropped much more than 6 per cent since 1989.

Accordingly, we continued to believe that, in the absence of more competitive approaches to project selection, many project sponsors and developers viewed MUP as the target price. We recommended that MUPs be adjusted downward to reflect significant decreases in market prices and that more competitive approaches to selection be followed wherever feasible.

Other Reasons for High Development Costs

Several other reasons for high development costs were apparent from the sample of projects we examined including: purchasing land before thorough studies of contamination and cleanup costs had been done; paying development consultants a fee based on the cost of the project rather than the services to be provided; and delays and requirements imposed by local communities.

Controls during Construction

For most projects we reviewed in the three regions visited, the Ministry's technical services staff had adequately reviewed the site drawings to ensure that proposed projects were in compliance with Ontario building codes and Ministry standards for non-profit housing before approving the project.

Ministry inspectors are required to make periodic site visits to ensure that a project is being constructed according to the approved plans, and the terms of the contract. Inspectors are also required to complete construction inspection reports to document project status and any problems encountered.

For most projects, we found that inspectors visited the construction site at least monthly. While this was confirmed by reviewing the Ministry's copy of the site meeting minutes prepared by the sponsoring group's architect, we noted that inspectors in the Central and Southern Regions seldom completed the required inspection reports.

For the three regions reviewed, we found that the progress draw billings submitted by the contractor were being satisfactorily verified through monthly on-site inspections by all parties involved in the

project and that all change orders were properly reviewed and approved.

COMPLETED PROJECTS IN OPERATION

As of December 31, 1991, there were about 41,000 affordable housing units completed under the various post-1985 non-profit housing programs (27,500 under the federal/provincial program; 13,500 under the various provincial programs).

To assess the Ministry's control over completed projects, including efforts to monitor costs and compliance with program guidelines, we reviewed 60 projects which had been in operation for at least 18 months. Of these 60 projects (30 from Central Region; 15 from Eastern Region; 15 from Southern Region), 50 were completed in 1988 and 1989. We visited 20 of those projects.

ESTABLISHING FINANCIAL CONTROL AND ACCOUNTABILITY

Operating agreements are an important means of formally and clearly establishing the accountability between the Ministry and non-profit housing groups. They are essential to protect the interests of both taxpayers and tenants and to help ensure that program objectives are met. Consequently, the Global Operating Agreement between CMHC and the Ministry requires that all jointly funded projects have a signed operating agreement in place with the non-profit group sponsoring the project. Such agreements cover a variety of important administrative requirements including ownership and sale of assets, tenant selection, and budget and reporting expectations.

While the Ministry has a similar requirement for projects funded unilaterally by the Province, the Ministry had not entered into operating agreements with any of its unilateral projects or with any co-operative housing groups. In fact, of 60 projects examined, 36 did not have operating agreements in place. The 24 projects with operating agreements were all projects under the federal/provincial program. However, 13 of the federal/provincial projects managed by co-operative housing groups had no operating agreement, in contravention of the Global Operating Agreement with CMHC.

Ministry officials informed us that operating agreements were still being developed for the provincial programs to overcome disagreements with some specific terms of the standard agreements. In the meantime, non-profit groups were required to sign a memorandum of understanding indicating that they would sign an operating agreement when available. Further, co-operative housing groups disagreed with some terms of the draft operating agreements even for the federal/provincial program and thus had not signed any agreements.

Also, the Ministry had committed to enter into special operating agreements with large municipal non-profit housing providers. These agreements were intended to establish accountability while recognizing the capabilities and sophistication of these major providers, thereby permitting somewhat greater autonomy in their delivery of the programs. However, these agreements had not yet been finalized.

The lack of operating agreements for provincial projects was a serious concern given that almost four years have passed since their introduction. Additionally, we were concerned that the "memorandum of understanding" may not sufficiently protect the Province's investment or the interests of taxpayers and tenants.

Although non-profit groups were expected to file annual budgets and audited financial statements for review and approval by the Ministry's Housing Administrators, we

found that many had either not filed these on a timely basis or the Housing Administrators had not yet reviewed the information filed. This has not only weakened financial control of the program but also has caused unnecessary expenditures where untimely reviews or approvals meant that justifiable rent increases could not be made until the following year.

DETAILED COST ANALYSIS

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We noted that housing administrators in Southern and Eastern Regions reviewed unit expenditures by cost category when reviewing their project budgets. This breakdown enabled them to compare unit costs among projects and with the guidelines suggested by the Ministry. In Central region, however, project costs had not been broken down into unit costs for comparison or analysis purposes in files we examined. For larger non-profit groups with more than one project, financial statements submitted by project management did not even provide costs on an individual project basis.

To assess the reasonableness of unit operating costs we conservatively compared a representative sample of 45 projects in the three regions to average private sector rental operating costs in Toronto in 1991. We also examined a sample of nine Toronto projects. We excluded the less controllable operating costs such as property taxes and insurance from our analysis. Similarly, utility costs were excluded as these costs are not comparable because they are not levied on the same basis by all projects.

Comparing only the more controllable costs indicates that the average controllable cost of the 45 non-profit projects was $210 per unit per month, 102 per cent higher than for Toronto private rental accommodation of $104. Costs in Central Region were particularly high, due mostly to projects in Toronto. Specifically, nine Toronto projects representing 738 two-bedroom equivalent units had average monthly operating costs of $265, over two and one-half times that of Toronto private rental operating costs.

Monthly Controllable Operating Costs Per Unit

	Non-Profit by Region			Toronto Private Rental	Toronto Sample Projects
	Central	Eastern	Southern		
Labour & Related	$ 50	$ 27	$ 22	$ 23	$ 72
Materials & Services	48	56	48	45	63
Vacancy/Bad Debt Loss	7	4	6	2	14
Administration	66	59	49	30	69
Contingency/Misc.	9	2	9	4	10
Replacement Reserve	50	38	42	0	37
TOTAL	$230	$186	$176	$104	$265

The most significant differences in cost relate to replacement reserves, administrative costs, and labour and related costs. These costs could be reduced by:

- basing replacement reserves on the estimated timing and costs of repairs and replacements of capital items such as roofs and appliances rather than on a flat percentage of the total capital cost of a project;
- basing administrative costs on the number and mix of units rather than a flat percentage of the total operating and financing costs of a project; and
- better monitoring of labour and related costs in relation to a reasonable standard.

TENANT PLACEMENT

During our visit to 20 projects, we reviewed income verification procedures performed by project management for RGI applicants to ensure they were actually in need of a housing subsidy. We were satisfied that income verification procedures were properly performed in those projects and that RGI units were occupied by tenants in need of housing subsidies because of their low income. However, we were not sure whether the most needy were being housed in an equitable and efficient manner.

Under the Ministry's referral policy, non-profit housing projects are required to fill at least 50 per cent of their units designated for the most needy from the local housing authorities' (LHA) waiting lists. The balance of the units may be selected from the non-profit projects' own waiting list. Selection criteria applied by non-profit groups vary and may include one or more of the following: time on waiting list, degree of need (income), compatibility with existing tenants, adherence to membership rules, and ability and willingness to contribute to the management of the project.

Out of 21 LHAs we surveyed, only one LHA had been consistently requested to provide referrals to non-profit projects in its area. All others stated that most groups in their area asked for referrals at the initial rent-up stage but not when vacancies occurred subsequently. In general, LHAs were frustrated that they were not able to place needy applicants in non-profit projects in their areas and felt that referral arrangements were "inconsistent at best". The most common reasons sited for lack of referral requests were:

- a lack of signed operating agreements requiring projects to adhere to the referral policy;
- lack of formal procedures to ensure that neediest unit vacancies are reported or referred to LHAs even when there is an agreement in place. Non-profit groups often ignore the terms of the agreement unless the LHAs become aware of the problem; and
- significant staff turnover at the non-profit housing projects and insufficient training of new staff.

Multiple waiting lists and inconsistent placement criteria and referral practices make it unlikely that those in need of affordable housing will be treated consistently, equitably and efficiently. This issue was also discussed in our 1991 *Annual Report* section 3.15 and in the Ministry's 1991 Consultation Paper and is still under review.

RESPONSE

The Deputy Minister of Housing responded to our report on July 24:

SELECTION AND APPROVAL OF HOUSING PROPOSALS

We appreciate the comments you have provided regarding our review and approvals process. Our need and demand analyses are subject to the same dynamic forces that occur in the housing market in general. Housing demand is known to be cyclical and low vacancies rates are known to occur when housing demand is high. This time, the government has decided to adopt the strategy of providing a buffer against another affordable rental housing shortage like that experienced in the mid-eighties by continuing to create more affordable rental housing units. As the market cycle turns, vacancies are expected to decline but will not return to their unacceptable former levels.

3.12

CONTROL OVER DEVELOPMENT COSTS

Expected Decline in Costs Not Realized

We had discussions with your staff on this subject and we disagree with their methodology, theoretical comparative analysis with the private sector and the resultant reported financial impact for the following reasons:

- *Your comparison of $1.16 billion of social housing approved in 1991 to the costs of producing similar private sector housing which you derived through the use of private market housing indices is flawed. There are certain costs associated with providing non-profit housing that do not occur entirely or to the same degree in the private sector. For example, obtaining municipal and/or Ontario Municipal Board approval for non-profit housing is in many cases very difficult. In pursuing a community based delivery approach, we have attempted to confront and overcome the fears of residents who object to non-profit housing. This community based delivery approach was, as noted earlier, not achieved without significant cost. While the private sector is subject to the same planning approvals process as the non-profit sector, their residential developments do not serve the same client groups as those in non-profit housing (special needs, lower-income families and seniors) and are therefore not as contentious to the community-at-large.*

  In addition, the review and approval process for non-profit proposals typically takes two years and in some cases longer due to delays in obtaining a hearing before the Ontario Municipal Board. The majority of non-profit groups receiving commitments in 1991 identified suitable sites and made commitments prior to 1991. In turn, the Ministry, during this development phase would have provided these non-profit groups with substantial incentive loan funding to develope their proposals to a point where they could receive a commitment from the Ministry. During 1990 and 1991, as more sites became available, groups could not be expected to drop their sites and acquire new ones due to the substantial investments in time and money. In addition, there was no guarantee that the aforementioned process with regards to obtaining the necessary zoning approvals would not apply to the new sites. For this reason, a comparison between projects that received final approval in 1991 with similar 1991 market construction by the auditor's methodology is not valid.
- *The housing indices used by the auditor measure private market trends and, as noted earlier, cannot be used as a measure to assess factors related to non-profit housing. These indices take into consideration the substantial decline in the luxury condominium market which is not a part of non-profit housing. In addition, other cost factors not structured into these indices include*

the legal costs associated with Ontario Municipal Board hearings, services provided by consultants to non-profit groups, and design enhancements to non-profit buildings that are required for tenants with special needs. Such design enhancements include providing access to non-profit housing buildings and modifying the housing units to support the needs of the physically handicapped.

- *Even if these indices could have been used for meaningful analysis, they were applied erroneously. The auditor's calculation is based on annual housing price indices. Since most of the 1990 projects were committed in the last months of 1990, the annual indices used by the auditor should have been weighted to reflect the monthly variations in housing costs.*
- *The suggestion that 127 two-bedroom equivalent units were actually purchased for $140,000 per unit is misleading because no such purchase was made. The two-bedroom equivalent unit is a theoretical construct devised by the auditor as a tool for comparison. It is a simple tool that only takes into account square footage. However, one cannot derive an average cost for a two-bedroom unit simply by adjusting costs in proportion to differences in square footage. Each unit, regardless of size, has fixed costs. Therefore, a real two-bedroom unit is cheaper than two one-bedroom units. The sample analyzed by the auditor is too small and is not representative of the true picture. In reality, 237 units were acquired at a cost of $76,783 per unit.*

Despite our disagreement with your comparisons and methodology, and within the context of community based delivery, we are committed to ensuring that non-profit housing projects are developed in the most cost-effective manner. Our own analysis of non-profit housing projects approved in 1990 and 1991 indicated that the Ministry got good value for its money.

Highest and Best Use Appraisal Value

The Ministry's use of "highest and best use" appraisal methods is consistent with standard practices used in both the private market and the government. In addition, appraisal is only one of many tools used by management for making decisions. The Ministry's policy is to negotiate the best price based on market value. Nonetheless, if there is concern with the use of this type of appraisal, we will discuss the matter with the Ministry of Government Services. However, we recognize the importance of examining surrounding land transactions before purchasing land. In the future, staff will be trained to ensure that all Ministry appraisals include the examination of recent land transactions and events pertaining to the site and within the catchment area of the subject site.

Competitive Procurement Practices

With the sudden decline in the real-estate market, many developers had properly zoned sites well suited to non-profit projects. Developers submitted numerous proposals to the non-profit groups which were reviewed by the Ministry. The Ministry was able to take advantage of opportunities for cost and time savings by allowing non-profit groups to negotiate directly with the developers that proposed the most attractive offers. Further, due to the number of modified turnkey proposals offered there was a high level of competition among private developers, and the non-profit groups had considerable choice. By responding to worthy proposals, the Ministry was able to realize time and money savings.

MUP Not Adjusted When Costs Declined

Your comment on Maximum Unit Prices (MUPs) is noted and this matter is being reviewed through the Ministry's Non-Profit Program Review by making MUPs more responsive to localized market conditions.

COMPLETED PROJECTS IN OPERATION

ESTABLISHING FINANCIAL CONTROL AND ACCOUNTABILITY

The Ministry has also identified the need for project level operating agreements as a serious concern and has placed a high priority on finalizing these project operating agreements. Our negotiations with the co-operative sector have resolved most of the difficult issues.

We recognize the importance of timely review and approval of budgets and statements. As part of the Non-Profit Program Review, the Ministry is examining ways to streamline the review and approval of financial statements to make the process quicker and easier. In addition, we have instituted a monthly reporting procedure to address any outstanding issues.

3.12

DETAILED COST ANALYSIS

Your comments in this section have been noted. As part of the Ministry's Non-Profit Program Review, we are currently examining the policies on a number of operating cost issues, which include administrative, labour and replacement reserves costs.

TENANT PLACEMENT

We are pleased to note that you find our income verification procedures to be satisfactory. Your comments on tenant placement and referral procedures which we also identified as concerns through the Housing Policy Framework initiative are also valid. Tenant placement and referral procedures are governed by project operating agreements. After the Ministry has finalized these project operating agreements we will be able to more effectively monitor and enforce tenant placement procedures.

LIQUOR CONTROL BOARD OF ONTARIO:

Selling Prices, Transportation of Liquor, and Treasury Operations

The Liquor Control Board of Ontario controls the importation, distribution and sale of alcoholic beverages in Ontario. The Board operates over 600 stores for the sale of liquor to the public. For the 1991/92 fiscal year, sales were approximately $1.8 billion. The Board remitted $675 million in profits to the Consolidated Revenue Fund.

Our audit covered selling prices, the transportation of liquor, and treasury operations. We assessed whether:

- selling prices were properly calculated;
- the acquisition and management of freight services were satisfactorily controlled; and
- revenues and investments were satisfactorily controlled and managed in accordance with applicable policies and procedures.

CONCLUSIONS AND FINDINGS

SELLING PRICES

The Board had satisfactory procedures to ensure that selling prices were properly calculated.

TRANSPORTATION OF LIQUOR

Controls over the acquisition of freight services were more than satisfactory. By tendering for freight related to imported products, the LCBO has saved over $3 million per year.

On the other hand, controls over the management of freight services were less than satisfactory.

- Freight costs for deliveries to stores could have been reduced had trailers been better loaded.
- At one warehouse, a trucking company was paid approximately $250,000 to move trailers in and out of the shipping area. No similar costs were incurred at the other warehouses.

TREASURY OPERATIONS

Overall, controls over investments and store revenues were satisfactory and complied with applicable policies and procedures. For example, tendering for banking services resulted in savings in service charges of more than $600,000 annually. However, we had concerns regarding foreign currency transactions.

- Since 1989, foreign currency transactions undertaken by the Treasury Department have been speculative rather than tied to a hedging program.
- Internal controls over these transactions were unsatisfactory.

COMMENTARY

SELLING PRICES

The Board lists approximately 3,000 domestic and imported liquor products. In addition, approximately 600 specialty products are available at any one time at designated Vintages stores.

CALCULATION OF SELLING PRICES

3.13

We determined that retail selling prices for general listings were satisfactorily controlled and included correct mark-up and taxes. In addition, procedures were in place to ensure that price changes are updated on a timely basis.

TRANSPORTATION OF LIQUOR

The Distribution Division is responsible for importing, warehousing and delivering liquor products. Transportation costs were $37.4 million for the 1991/92 fiscal year, of which $23.2 million was for delivering imported liquor to LCBO warehouses in Whitby, London, Ottawa and Thunder Bay, and $9.5 million was for moving liquor from the warehouses to stores.

ACQUISITION OF FREIGHT SERVICES

Approximately three years ago, the Distribution Division began formally tendering for all major freight services. During our audit, the Board was in the process of completing a tender for deliveries to stores from the Whitby warehouse, which was the last remaining major untendered transportation service. We reviewed these tenders and were more than satisfied with the Board's progress and its adherence to established purchasing policies and procedures.

Tendering for freight services has resulted in significant cost savings. For example, competitive tendering for overseas shipping freight has saved over $3 million per year.

However, we determined that some improvements were still needed.

- Annually, the Board charters a cargo plane to ship a specialty wine from Brussels to Toronto to ensure on-time delivery to Board stores for a worldwide promotion of the product. The Board has used the services of one charter company for the last several years. The cost in 1991 was approximately $250,000. We were informed that competitive quotes are not obtained because the Board has been satisfied with the service provided, which requires meeting a very tight delivery schedule.

  Considering the significant savings achieved by tendering for other freight services, the Board should investigate whether less costly suppliers are available that will give adequate assurances that they will meet the tight deadline.
- When tendering large contracts, a common purchasing practice is to require a bid bond. Bid bonds are guarantees from insurance companies that the bidder will not withdraw their bid if awarded the contract.

  While bid bonds were required for the overseas shipping freight tender, no bid bonds or other form of security were requested for domestic tenders. During a March 1992 tender for deliveries from one warehouse to stores, the two lowest bidders withdrew after having been offered the contract. The Board then awarded the contracts to the next lowest bidders. As a result, the additional costs to the Board will total $300,000 annually over the three years that the contract is in force. Had the Board required bid bonds or other form of security, it would have had recourse

to recover at least some of the additional costs.

MANAGEMENT OF FREIGHT SERVICES

The Board operates four warehouses that are primarily responsible for receiving liquor from suppliers, as ordered from head office, and carrying out scheduled deliveries to their assigned stores, usually on a weekly basis. All delivery services to and from the warehouses are provided by transportation companies.

In addition to reviewing the Distribution Division at the head office, we visited the three largest warehouses.

Deliveries to Stores

We reviewed over 300 deliveries made to stores during 1991 from the three warehouses we selected and noted the following:

- For two of the warehouses, opportunities existed to reduce the number of trailers hired had loads been maximized. For example, two trailers from the same company were scheduled by one warehouse for deliveries to stores in the same area. The first trailer made a morning delivery to one store of approximately 8,400 kilograms of liquor and cost $537. The second trailer made an afternoon delivery to another store of approximately 10,200 kilograms of liquor and cost $652. Trailers are capable of carrying approximately 23,000 kilograms. Since both deliveries combined weighed 18,600 kilograms, these deliveries could have been scheduled using only one trailer at a cost of $742, and the Board would have saved $447.

  Savings could be achieved by improved loading procedures, better scheduling of deliveries to stores, and by monitoring the loading efficiencies achieved by warehouse shipping staff. Both of these warehouses combined paid approximately $8 million to trucking companies for deliveries to stores. We estimated that savings ranging from 5 to 10 per cent are possible at these warehouses.

- At the third warehouse, which spent approximately $1.2 million for deliveries, we did not find any opportunities for increasing the size of loads. Rather, we determined that loads were frequently excessive and exceeded weight restrictions as set out in the *Highway Traffic Act*. Some trailers were loaded over 5,000 kilograms more than their allowable weight. The Act states that both the trucking company and the shipper can be fined for exceeding weight restrictions.

- Warehouse staff inform trucking companies one day in advance of their assigned loading times. Trailers and a company representative, usually the driver, are required to be present at the shipping area to count and load the cases into their trailers. At one warehouse, a company was paid approximately $250,000 to move their own and other companies' trailers from the storage yard to the shipping area in order for these trailers to be available at their assigned time. At the other warehouses, no similar charges were incurred. Instead, individual companies ensured that their trailers were available at the assigned loading time at no additional cost to the Board.

- Stores are grouped and tendered as a package. Improvements in the groupings would result in additional savings to the Board. We noted several examples where groupings overlapped geographically and resulted in several trucking companies being used for the same general area. We also noted instances where different companies made deliveries on the same day in the same general area, and both trailers were only half loaded.

For example, one trucking company was used for store deliveries from one warehouse to the Toronto area. However, three companies were delivering to stores in the Hamilton area from the same warehouse.

In addition, because stores were not grouped geographically, trucking companies bid higher rates for stores that were outside the geographic area of the majority of the stores in that grouping. Using the bids obtained for one warehouse, we estimated that savings of over $20,000 were possible had stores been grouped geographically.

3.13

TREASURY OPERATIONS

We reported in our 1988 *Annual Report* that the Board was incurring excessive banking service charges and high borrowing costs and needed to improve their cash forecasting. To deal with these concerns, a separate treasury function was created in mid 1989 to develop and implement a system to improve and monitor cash management practices.

The Treasury Department's primary responsibilities are banking relationships, armoured car services, investing of interim surplus cash, foreign currency matters, and transfer of profits to the Province's Consolidated Revenue Fund.

The Treasury Department consists of four staff, including the Treasurer.

As part of our audit, we assessed stores' internal controls over daily cash receipts and bank deposit procedures.

BANKING RELATIONSHIPS

In May 1990, the Board tendered for a five-year banking services agreement. Submissions from five major chartered banks were received and a chartered accounting firm was used to evaluate the proposals. The bank that offered the most competitive pricing was chosen.

Under previous banking arrangements, the Board's average monthly bank service charges totalled approximately $150,000. The tender resulted in these charges decreasing to approximately $100,000 per month. The resulting annual savings were approximately $600,000.

In addition, the Board has negotiated that the bank pay interest on deposits in transit to the bank in armoured cars. This has resulted in additional interest income revenue totalling approximately $300,000 annually.

TRANSFERS TO THE CONSOLIDATED REVENUE FUND

Prior to each fiscal year, the Treasury Department prepares a schedule indicating weekly remittances to the Consolidated Revenue Fund based on estimated cash flows for the year. Once completed, the Ministry of Treasury and Economics is informed of the amounts and timing of transfers that they can expect during the year. For the year ended March 31, 1992, scheduled transfers totalled $665 million.

We assessed the amounts the Board transferred for the 1991/92 fiscal year, and were satisfied with the total amount transferred based on our analysis of the Board's financial statements. For instance, despite a sales revenue shortfall of approximately $47 million, the Board transferred $10 million more than originally planned. This was primarily achieved through expenditure constraints. As a result, transfers to the Consolidated Revenue Fund totalled $675 million for the 1991/92 fiscal year.

Although cash flow forecasts were used to schedule transfers, we felt that the Board held funds longer than was necessary

during the 1991/92 fiscal year. During the first three quarters of the fiscal year, the Board had accumulated excessive amounts of cash, primarily in short-term deposits. However, accelerated payments were not made until the last quarter of the fiscal year.

We were informed that, for the 1992/93 fiscal year, the Board has adjusted their transfer schedule so that payments will be accelerated by $70 million by the end of the third quarter of the fiscal year when compared to the 1991/92 fiscal year.

REVENUE CONTROLS AT STORES

Store managers are provided with an administrative manual that details procedures for managing and accounting for sales receipts, including bank deposit procedures. To ensure store managers comply with the controls stated in the manual, analysts from the Financial Quality Assurance Department regularly visit stores to test their records and determine whether these records are up to date.

We reviewed the contents of the manual and were satisfied with the revenue controls established for stores. In addition, we visited four stores together with the Board's analysts and determined that controls were working as intended.

FOREIGN CURRENCY

For the 1991/92 fiscal year, the Board purchased approximately $143 million in imported liquor, for which payments to suppliers were required to be made in foreign currencies. US dollars accounted for approximately $100 million of this amount.

When purchases are paid for in foreign currencies the ultimate cost of the product to the Board depends on the exchange rate at the time of the payment, which may be significantly different from the rate at the time the product was ordered. Often three to six months may have elapsed.

Management may decide to accept the risk of a significant negative change in the exchange rates or may initiate steps to manage that risk by using a hedging program. Hedging can be accomplished using instruments such as foreign exchange forward contracts and options. Buying a forward contract or option from a bank guarantees an exchange rate in advance. In return the buyer eliminates any uncertainty regarding the amount to be paid in Canadian dollars. At the LCBO, the Treasury Department's responsibilities include the managing of foreign exchange risk.

Existing Practices

Since its formation in 1989, the Treasury Department has been actively buying and selling foreign currency exchange instruments. However, the transactions entered into were not related to the Board's foreign currency requirements and collectively could not be considered a hedging program.

We concluded that the Treasury Department's activities related to foreign currency exchange financial markets over the past three years have been primarily speculative. The focus was on making a profit, as opposed to hedging against foreign exchange rate fluctuations. It is clear that no attempt was made to match these activities with the Board's actual foreign currency requirements.

Financial instruments were not purchased to reduce uncertainty or risk. The primary activity was the selling of option agreements for which the banks would pay the Board premiums. Generally, these options would only be exercised if the exchange rates moved unfavourably. Otherwise they would expire worthless, and the Board would retain the premium received. However, options can result in unlimited compensation to the purchaser when exchange rates change adversely. We considered these transactions to be speculative, creat-

ing unwarranted additional risk to the Board.

For example, the Board annually purchases approximately $32 million of liquor from suppliers who require payment in French francs. On November 22, 1991, the Treasury Department had option agreements outstanding for French francs totalling approximately $400 million (Canadian).

3.13

However, despite the significant number of transactions involving the buying and selling of foreign currency instruments, the Board pays most of its foreign bills by purchasing foreign currencies on the date payment is due. During discussions, Board staff conceded that their activities were not a hedging program, but were a means for generating additional revenues to offset any costs incurred to purchase foreign currency.

We were concerned that these activities have been carried on since 1989 when, on several occasions, both the LCBO's Board of Directors and the Ministry of Treasury and Economics clearly approved only a hedging program, and stated that speculative transactions were not to be entered into.

For example, in November 1989, a Board member expressed concern that some of the option initiatives could be considered speculative and requested senior management to meet with the Ministry and obtain an endorsement for these types of transactions. In a response to senior management on February 7, 1990, the Ministry advised that "hedging transactions undertaken to avoid or reduce foreign exchange risk are acceptable, but speculative foreign exchange transactions are not permitted".

On three other occasions—December 24, 1990, July 5, 1991, and February 28, 1992—the Ministry informed Board management that foreign exchange activities should not involve speculative transactions. For example, on July 5, 1991, the Ministry advised that "using options is permissible as long as it is confined to hedging against foreign exchange exposure and does not involve speculative foreign exchange transactions."

When we contacted the appropriate staff of the Ministry, we provided examples of the types of foreign exchange activities that were undertaken by the Treasury Department. They expressed to us their concern that these activities were not consistent with the advice they had previously provided.

Planned New Program

During our audit, we were informed that Board management was in the process of developing a hedging program. A policies and procedure manual had been developed with the assistance of external consultants and a computerized foreign exchange management system was being purchased. On January 31, 1992, the Board of Directors approved the acquisition of this system after considerable discussion with senior management regarding the need to ensure that foreign exchange activities were handled in a manner which minimized risk to the Board.

On February 28, 1992, in response to a request from the Board to review the policies and procedures manual, the Ministry agreed that there was a need to manage foreign currency exposure from purchases. They cautioned, however, that "foreign exchange transactions of a speculative nature are not regarded as acceptable practice by the Province. The guiding principal in your foreign exchange activities should be risk mitigation not risk creation."

The Board's internal auditors and our Office had concerns that the changes planned will not result in reduced risk to the Board. Details of the new program included plans to continue the transactions which we considered speculative, in addi-

tion to managing the foreign currency exchange exposure from purchases of products. For example, software companies bidding for the new system were instructed that any new system must be capable of handling annual volumes exceeding $1 billion dollars of managed positions, in addition to the foreign currency exchange exposure resulting from purchases of $145 million. The description of managed positions is identical to those of the past activity. The manual also indicates that managed positions will be a significant part of the activities of the new program.

Controls over Foreign Currency Activities

There have been unsatisfactory controls over the Treasury Department's past foreign currency activities. Good controls should have been developed earlier since individual premiums and settlements have ranged from $1,000 to over $700,000 and approximately 75 transactions were incurred each month.

Good controls would provide assurance to senior management that assets are used as intended, and accounting records are reliable and prepared on a timely basis. We determined that several controls were deficient. For example:

- The extent of reconciliations of foreign currency activities was questionable. We determined that $70,000 was in the wrong general ledger account since early 1991 while a known $22,000 overpayment by a bank was not returned.

  In addition, foreign currency bank transfer approvals and bank confirmations were not compared by the accounting department to bank statements to verify whether funds were used as intended.
- Several transactions were made using accounts that the Treasurer had established at two brokers. For one account, the Treasurer deposited a $200,000 interest bearing bond as collateral without obtaining senior management's authorization to do so. These separate accounts resulted in no approvals or reconciliations necessary for individual transactions.

  We determined that a $60,000 cheque from one of these accounts was unaccounted for. The cheque had been missing for approximately six months and went undetected. After we informed the Treasurer, the broker replaced the cheque, with interest. While the broker indicated that their internal system would have picked this up, there is no guarantee that the Board would have received the $60,000.
- To pay for option agreements that were exercised by the bank, the Treasurer would sell a new option agreement to the bank and use the premium revenue to offset the payment. The proceeds or outcome of individual transactions were not apparent from the manual records and bank statements. Only zero balances, rather than the settlement or premium amounts, were recorded. Accordingly, any losses were not evident.
- Income was not recognized in a consistent fashion. For some periods we calculated significant losses. However, profits that were not recorded in prior periods were carried forward to smooth income and report a minimal profit for each period.
- Banks and the Treasurer were not restricted as to the total outstanding options that could be authorized. Although for short-term investments, the Treasurer was limited to $25 million per financial institution, the LCBO had outstanding option agreements totalling over $465 million during October 1991.

- Reports were periodically prepared by the Treasurer for senior management that listed all outstanding option agreements. These reports did not include a value of the net worth of these agreements, nor did the timing of these reports coincide with the interim financial period end dates. Unless extensive calculations were done by someone with specialized expertise, it was not evident from the reports whether the portfolio was profitable or in a deficit position. Except for the year end, any comparisons during the year with the period results were not possible.

RESPONSE

3.13

The Chair and Chief Executive Officer of the Liquor Control Board of Ontario responded to our report on September 21:

TRANSPORTATION OF LIQUOR

ACQUISITION OF FREIGHT SERVICES

The cargo plane in question was chartered for the very successful Beaujolais Nouveau program. This is an event-driven product launch with very little time between the harvesting and bottling of the wine and its predetermined public unveiling. In these circumstances, prompt and reliable transportation is crucial. The Board has experienced problems in the past because of these tight time constraints. Companies that promised delivery did not fulfil their obligations. For the past three years, the Board has relied on the same carrier and has received excellent service. However, the Board will obtain additional quotes from other carriers in future to ensure that the carrier presently used is as cost-competitive as it is dependable.

Bid bonds will be required for all future shipping tenders.

MANAGEMENT OF FREIGHT SERVICES

Deliveries to Stores

- *A working group with representation from the LCBO's Distribution and Retail Divisions has been established to identify additional opportunities to improve delivery procedures and scheduling. Load capacities are also being adjusted to reduce freight costs.*
- *It has been made clear to the responsible staff that all loads must be within the weight limits in the* Highway Traffic Act.
- *Ongoing efforts, including the tendering of contracts, are continuing to ensure that freight services provided to the LCBO by private carriers are done so in a manner which is both efficient and cost-effective.*
- *Store groupings are being reassessed by a working group with representation from the LCBO's Distribution and Retail Divisions with a view to identifying and implementing the optimum arrangement.*

TREASURY OPERATIONS

TRANSFERS TO THE CONSOLIDATED REVENUE FUND

The cash flow forecast for fiscal 1991/92 was developed based upon anticipated "soft" sales during the first part of the year. However, sales were better than originally forecast, particularly during the Christmas season. In the latter part of the year, sales declined and surplus cash was used to meet ongoing purchase obligations.

Increased emphasis is continuing to be placed by the LCBO on its cash management practices. This includes ensuring enhanced integration of product procurement activities with the cash flow generated by sales. In this way, the Board will be able to meet its ongoing business commitments and funds will be transferred to the Consolidated Revenue Fund in a timely way.

It was anticipated that transfer payments would be accelerated in 1992/93, when compared with 1991/92, but reduced sales have resulted in reduced transfers to the Consolidated Revenue Fund.

FOREIGN CURRENCY

Existing Practices

Trading practices about which concern has been expressed have ceased. A revised hedging program designed to limit the Board's risk exposure is presently being developed with the assistance of specialized consultants.

Planned New Program

The new program initially envisaged has recently changed focus and direction. For example, a software system with large volume capacity was originally considered, but the decision was made not to purchase it. A revised strategy is being formulated that will ensure that all foreign currency exchange activities are related to LCBO purchase commitments. This strategy will also help ensure that foreign exchange activities are suitably managed to minimize risk exposure to the LCBO.

Controls over Foreign Currency Activities

- *With the assistance of specialized consultants in foreign currency activities, enhanced controls have been instituted.*
- *A revised approval process is being implemented and in future full reconciliation will be ensured for all foreign currency activities.*
- *As part of the revised hedging program, such practices in future will not be possible as the Accounting Department will ensure full documentation of all cash inflows and outflows.*
- *More detailed and consistent reporting requirements are being instituted.*
- *Clearly defined limit structures will be monitored through exception reports which are part of the revised hedging program.*

In future, the value of outstanding option agreements will be clearly stated.

The Board appreciates the positive comments made in the course of the audit concerning LCBO practices, specifically in the areas of acquisition of freight services, payments to suppliers, armoured car services, banking relationships, and revenue controls at stores. The recommendations made to strengthen LCBO operations are also welcomed.

MINISTRY OF NATURAL RESOURCES:

3.14 Timber Stumpage, Hunting and Fishing Licences, and Provincial Park Fees

The goal of the Ministry of Natural Resources is to contribute to the environmental, social and economic well-being of Ontario through the sustainable development of natural resources. In this regard, the Ministry has developed programs concerned with the use of resources such as land, water, trees, fish and animals.

The Ministry's philosophy is that "prices charged for resources should reflect a fair return to the public, the extent of benefits received, the need to encourage efficient resource use, and the cost of protection, renewal, restoration and rehabilitation."

We assessed whether internal controls over revenue collection from timber stumpage charges, hunting and fishing licences, and provincial park fees were adequate, and whether related policies and procedures were being followed.

To achieve our objective, we examined the controls and procedures:

- for timber stumpage charges at the Wood Measurement Section along with one regional and one district office;
- for hunting and fishing licences at five district offices; and
- for provincial park fees at two district offices.

The Ministry collected approximately $105 million from these three sources in the 1991/92 fiscal year.

CONCLUSIONS AND FINDINGS

TIMBER STUMPAGE CHARGES

Controls over revenue collection were satisfactory, and related policies and procedures were for the most part followed. However opportunities existed for administrative changes that would yield additional revenue. The Ministry was in the process of conducting a Comprehensive Revenue Review Project.

HUNTING AND FISHING LICENCES

Controls over revenue collection were less than satisfactory, and related policies and procedures were for the most part not followed. For example:

- of the 47 issuers we reviewed, we found that approximately $500,000 of the $700,000 in licence revenue received by the Ministry was remitted late;
- some issuers received additional licences even though payment had not

been received for similar licences already supplied;

- the number of issuers should be reviewed. At the time of our audit, there were approximately 4,200 licence issuers in the province, of whom approximately 1,400 sold fewer than 250 licences in the 1990/91 year; and
- contrary to Ministry policy, approximately $300,000 in 1992 licences were sent to 32 issuers who had resigned or whose accounts were problematic.

PROVINCIAL PARK FEES

Controls over revenue collection were satisfactory, and related policies and procedures were for the most part followed.

COMMENTARY

TIMBER STUMPAGE CHARGES

Timber stumpage charges are payments from companies and individuals for the harvesting of timber from Crown land. These charges, which are set by Regulations to the *Crown Timber Act*, are based on whether the licensee is categorized as "integrated" or "non-integrated", the type of timber harvested, and industrial price indices for commodities produced from timber.

Regulation 234 under the *Crown Timber Act* defines an "integrated" licensee as one who owns or operates a pulp mill, or is related to the owner or operator of such a mill in Manitoba, Ontario or Québec. A "non-integrated" licensee owns or operates a sawmill or other mill that is not a pulp mill, and is not related to the owner or operator of a pulp mill.

Total stumpage charges for the 1991/92 fiscal year were $54 million (1990/91 - $69 million).

There are five basic types of licences:

- Orders-In-Council;
- Forest Management Agreements;
- District Cutting Licences;
- Tendered Sales; and
- Salvage Licences.

Orders-in-Council and Forest Management Agreements cover most of the area under licence in the province and provide most of the revenue generated from stumpage charges.

Order-In-Council (OIC) Licences are granted by the Minister, with the approval of the Lieutenant-Governor in Council, to entities requiring a relatively long-term commitment for timber (for example, sawmills). OIC licences are issued for periods of up to 21 years for large areas and from one to five years for smaller areas.

Companies operating under Forest Management Agreements (FMAs) agree to manage the harvesting and silvicultural (forest regeneration) activities on the area covered by the agreement, in addition to paying the required stumpage fees. The Ministry reimburses the company for a portion of silvicultural and road construction costs. No money has been allocated for FMA road construction since fiscal 1990/91. FMA licences are issued for a 20-year term and are extended every five years if the terms in the agreement are met. At the time of our audit, there were 28 FMAs in the province.

The other three types of licences are for personal use such as for firewood, selling to the general public or a select group, or a clean-up operation for killed or damaged timber.

Invoices for timber cut by a licensee are generated in Sault Ste. Marie at the end of each month by the Timber Scaling and Billing System.

FINANCIAL SYSTEMS

Based on our audit, we concluded that controls for the Timber Scaling and Billing System and the Timber Accounts Receivable System were satisfactory. We were also satisfied that tally sheets, cubic metre measurements and approved cull (defect) factors were properly recorded.

TIMBER SALES FROM NON-INTEGRATED TO INTEGRATED COMPANIES

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Provincial Crown dues are based on an established price for each cubic metre of Crown timber cut. These vary according to the species of timber harvested and whether the licensee is integrated or non-integrated.

Under the current pricing structure, the integrated licensees generally pay higher Crown dues. For example, during the first quarter of the 1991/92 fiscal year, conifers were priced at $6.23 per cubic metre for integrated licensees, and $2.88 per cubic metre for non-integrated licensees.

The only exception is covered under Subsection 3(6) of Regulation 463/88 under the *Crown Timber Act*. This permits an integrated licensee using timber at its own sawmill or selling to another sawmill, to be charged the lower, non-integrated rate ($2.88 instead of $6.23 in the above example).

On the other hand, the Regulations do not address a situation wherein a non-integrated licensee sells the timber to a pulp mill. The licensee still pays the non-integrated rate ($2.88 rather than $6.23).

The Ministry's Timber Billing and Scaling System identifies the movement of timber by mill destination. Therefore, the Ministry has the information necessary to determine how much timber is sent to pulp mills by non-integrated licensees.

The December 1987 *Crown Timber Charges Review Report: Equity and Fairness to the Resource, Its Owner and Its Users* prepared by the Ministries of Natural Resources and Treasury and Economics, stated that "there is a growing problem with the differentiation of prices between integrated and non-integrated Crown timber licensees. The definition itself is nebulous and problematic and the distinction is outdated in a situation where Crown timber harvested by an integrated licensee is not necessarily destined for a pulp or paper mill, nor is Crown timber harvested by a non-integrated licensee always destined to a sawmill. This creates a situation where the Crown is charging different prices for roundwood to mills which produce a comparable product. Consequently, the Timber Charges Review Group concluded that the current definition should be discarded in favour of a finer-tuned distinction based on mill destination."

Management at the Forest Industries Section advised us that this recommendation precipitated the addition of Subsection 3(6) to the Regulation. However, this only addressed one side of the issue.

For the 1990/91 fiscal year, an additional $5.2 million in Crown dues would have been obtained if all timber destined for pulp mills had been charged at the integrated rate. This amount has increased over the past three years from $2.2 million in 1988/89 to $4.6 million in 1989/90.

The Ministry has been adhering to the current regulations. However, considering the significant amounts involved, we recommended that the Ministry review the stumpage fees charged for timber shipped to pulp mills by non-integrated licensees.

We were advised that the Ministry is currently conducting a Comprehensive Revenue Review Project. This would provide an excellent opportunity to consider making any desired revisions to the regulations.

INVOICE PROCESSING

According to Ministry policy, "invoicing for material cut and measured, and other applicable costs should be carried out as frequently as prudent." To achieve this, the Ministry collects information on timber measured, and invoices licensees monthly. Payments are due by the end of the month following the invoice date.

Tally sheets indicating the amount of wood measured are submitted to the regional and district offices on a weekly basis for input into the Timber Scaling and Billing System. In the case of the mass scaling method (weighing of wood), companies generally send the information to the Ministry on a monthly basis. This method accounted for approximately 70 per cent of the 16.4 million cubic metres invoiced during the 1990/91 fiscal year. Therefore, timber invoiced at the end of one month was actually measured during the previous month.

If the Ministry were to invoice for wood measured during the first three weeks of a given month by the end of the same month, we estimate that the Province would earn approximately $400,000 in interest annually.

This would require the companies using mass scaling to submit information more frequently than once a month. Currently, this information does not reach Sault Ste. Marie until after the end of the month in which the timber was measured. Instead of the current practice of mailing the magnetic tape, the information could be transmitted electronically by modem. This would enable the Ministry to invoice for most timber in the month that it is measured.

NEGOTIATED BONUS PRICING

Forest Management Agreements (FMA) and Order-In-Council (OIC) licensees pay a negotiated bonus price in addition to the Crown dues. In the case of tendered sales, the bonus is the amount bid over the Crown dues.

Ministry staff advised us that bonus prices for FMAs and OICs are determined based on species, quality, location and accessibility. However, we found that there is no formalized process or mechanism in place to determine bonus prices or to ensure that bonus pricing is applied consistently within regions and across the province.

A 1987 Crown Timber Charges Review report stated that "negotiated bonus prices as they currently operate are arbitrary and do not contribute to achieving fair pricing."

In addition, a September 1991 draft report on a study of Forest Revenue Mechanisms and Pricing Policies stated that "competitive auctions or sealed bidding can provide information on the value of standing timber which is useful in establishing stumpage prices for non-competitive sales." Stumpage prices are the combination of Crown dues and bonuses paid per cubic metre of timber.

We reviewed eight tendered sales and noted that bonus prices paid were always greater than those paid by neighbouring FMA and OIC licensees for the same species of timber. Minor differences may be justified; however, in many instances, the differences were significant.

The Ministry advised us that tendered sales are not directly comparable to non-tendered sales unless species quality, access and obligation of tenure holders are carefully matched. However, since there has been no attempt by the Ministry to make such comparisons, there are no explanations available for the differences.

If these licensees paid the same bonuses as were paid through the tendered sales, the Ministry would have received approximately $700,000 more during the 1990/91 fiscal year. For example, for white pine:

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- one OIC licensee paid a bonus price of $1 per cubic metre while a company under a tendered sale paid a bonus price of $23.88 per cubic metre. Based on the total white pine harvested under that OIC during 1990/91, the Ministry would have received an additional $100,000 if the tendered sale price had been paid; and
- under another tendered sale, a company paid a bonus of $10.34 per cubic metre while an FMA licensee paid no bonus. Based on the total white pine harvested in 1990/91 by the FMA licensee, the Ministry could have received approximately $100,000 in additional revenue.

We also compared the bonus prices for three neighbouring FMA and OIC licences. For example, one OIC licensee paid a bonus price of $1 per cubic metre for white birch while the FMA licensee paid no bonus. For the three examples reviewed, the Ministry could have earned an additional $100,000 in revenue if the FMA licensees had paid the same bonus rate as the OIC licensees.

We recommended that the Ministry develop criteria for the calculation of bonus prices and ensure that these criteria are applied on a consistent basis.

HUNTING AND FISHING LICENCES

The Ministry issues 53 different types of hunting and fishing licences for which it received $37 million in revenue during the 1991/92 fiscal year. The public purchases these licences through a network of approximately 4,200 issuing agents appointed by the Ministry. The majority of licensing agents are fishing tackle and hunting stores, hardware stores and various recreational outlets.

The Ministry annually sends issuers a supply of each of the various licences. The quantity sent is determined by the issuers' sales volume during the preceding year. Each month, issuers are required to remit proceeds from the sale of licences along with a copy of each licence sold.

REMITTANCE OF REVENUES

Ministry policy states that "the fees for all licences sold each month are to be remitted to the Ministry on or before the twentieth day of the following month." We reviewed remittances totalling approximately $700,000 from 47 issuers at five districts and found that approximately $500,000 was remitted more than two months late.

For example, one issuer remitted $37,000 on December 17, 1991 of which $35,000 was past due. Another issuer remitted $51,000 on December 27, 1991, all of which was late. Some of these funds were as much as 10 to 17 months past due. Total lost interest revenue to the Province from the late remittances we audited was approximately $7,600.

We also visited 27 issuers and found that 24 had approximately $200,000 of past due licence revenues on hand. For example, at the time of our visit, one issuer had $44,000 of licence revenue overdue for more than two months while two other issuers owed $21,000 and $35,000 respectively. Some of these amounts were as much as a year overdue.

Most issuers we visited advised us that they did not remit sales revenue before they receive their monthly statement. This is contrary to Ministry policy which states that issuers are to remit funds monthly, regardless of whether statements had been received.

MONITORING LICENCE ISSUER ACCOUNTS

Ministry policy states that "cost centre managers are responsible for monitoring the accounts, inspecting the records of licence issuers and ensuring that they are

maintained in a current state, and that Ministry revenue from the sale of licences is secure." We noted that in many instances, there was little monitoring of issuer accounts. For example:

- Some issuers were supplied with additional licences when they had not remitted revenue during the previous two months, or already had a sufficient quantity of that licence type.

  One issuer who had made no payments for 11 months received an additional 690 licences valued at $9,500.

  Another issuer owed $5,700 as of May 1, 1990. Between May 1, 1990 and April 30, 1991, the issuer received 10 additional licence orders totalling $13,000. During this time, the issuer made three payments and returned unused licences totalling $5,000. The outstanding balance of $13,500 as at May 3, 1991 was sent to the Central Collections Service of the Ministry of Government Services. If this account had been monitored more closely, the additional licences would not have been supplied to the issuer.

  A third issuer received an additional 760 licences valued at $7,000 in August 1991 when no payments had been received since May 15, 1991. The issuer already had received these types of licences for which the Ministry had not received payment.

  Additional licences should only be supplied when the Ministry has received payment for the majority of licences previously supplied to that issuer.

- District staff did not send the required registered letters 60 days after the payments were due and no remittances were received.

  One issuer's last remittance was December 20, 1990. District staff did not send a letter requesting payment until December 5, 1991, at which point the issuer's account balance had reached approximately $40,000. Approximately $37,000 was for sold licences while the remaining licences were unsold and expired.

  Another issuer had not made any payments since becoming an issuer in May 1991. As at November 1991, approximately $11,000 was owed to the Ministry for sold licences.

- Account reconciliations were not being done on a timely basis.

  According to Ministry policy, the district account is to be reconciled each month and discrepancies are to be resolved. Four of the five districts reviewed had not prepared a district account reconciliation for over one year.

- The Ministry's policy requires that an issuer's records and licences on hand be inspected when licence revenues are not received. Administrative personnel had visited licence issuers to review their records in only two of the five districts.

  Administrative personnel could monitor the timeliness of revenue remittances by reviewing the dates recorded on the sold licence copies submitted to the district office. These licence copies were generally not reviewed to ensure that issuers made remittances on a timely basis.

ADMINISTRATIVE COSTS

Of the approximately 4,200 licence issuers in the province, 1,400 issued fewer than 250 licences in the 1990/91 year. At the five districts we audited, there were more than 200 issuers who sold fewer than 250 licences in the 1990/91 year. Of these, 125 were located near other issuers.

We questioned the need for such a large number of issuers, especially those selling a small number of licences and located close to other issuers.

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In addition, Ministry policy states the cost centre manager can recommend to the Minister the cancellation of an individual's licence issuing authority. We noted a reluctance by the districts to recommend this. For example, one issuer was charged in November 1990 for not remitting Crown funds. The issuer made substantial remittances in December 1990 and February 1991 reducing the balance from $34,000 to $3,500. The issuer received additional inventory, but was again charged under the *Game and Fish Act* in September 1991. As of February 1992, the individual's licence issuing authority had not been revoked.

LICENCES SUPPLIED TO "DISTRICT CONTROLLED" ISSUERS

Issuers who are habitually late in remitting funds or are otherwise problematic are generally placed under district control. Ministry policy states that licences should not be directly supplied to issuers whose accounts are "district controlled". Licences would be sent to the district office, which would control the supply of licences to these issuers. This enables the district licence issuing clerk to monitor and control individual accounts. In addition, issuers who have resigned or discontinued issuing licences should not receive any licences.

We determined that at least $300,000 of 1992 licences were sent to 32 issuers whose accounts had been coded "District Controlled" or "Resigned". These accounts had been so designated between 8 and 28 days before licences were shipped from the Ministry warehouse in November 1991.

PROVINCIAL PARK FEES

The 261 provincial parks charge entrance fees and fees for the use of park facilities. There are six types of parks:

- wilderness;
- nature reserves;
- historical;
- natural environment;
- waterways; and
- recreation.

Revenue from provincial park fees amounted to $14 million in 1991/92. Provincial park fees ranged from $5.37 for a daily vehicle permit to $14.72 for campsites with electricity. Seasonal permits such as a summer vehicle permit cost $32.24. Rates vary according to season.

Based on our audit, we found that controls for the park accounting system were satisfactory, and that park permits were sequentially numbered and properly accounted for.

RESPONSE

The Deputy Minister of Natural Resources responded to our report on August 12:

TIMBER STUMPAGE CHARGES

I am pleased to note your comment that controls over revenue collection were satisfactory, and related policies and procedures were for the most part followed. The audit report notes that opportunities exist for administrative changes that will yield additional revenue. We intend to investigate these and other opportunities for revenue generation in the coming months.

The Ministry's Comprehensive Revenue Review Project and a proposed evaluation of the Wood Measurement Program in 1992/93 will be examining various means to [illegible] the future and [illegible]

examining the basis for Ontario's current generation of stumpage revenue. We expect that this examination will provide the mechanism for Ministry review of the current stumpage fees and process.

The audit report recommended that the Ministry invoice for wood measured during the first three weeks of a given month by the end of the same month in order to gain an estimated $400,000 in interest annually. In fact, many larger and established companies are already transferring data electronically via disk/magnetic tape. We are now testing a process with three companies which are initiating data transfer via modem. Completion of this modem testing, along with the implementation of the new Ministry Integrated Finance and Administration System, will allow a restructuring of the existing invoice processing schedule. Invoice generation as recommended in the audit report should be available for our 1994/95 season.

The issue of developing criteria for the calculation of bonus prices and ensuring that these criteria are applied on a consistent basis will be examined through the Comprehensive Revenue Review project. There is a complex set of existing arrangements with forest companies which has to be examined. One aspect of these arrangements, such as bonus prices, should not be reviewed in isolation without consideration of the full impact of any proposed changes.

HUNTING AND FISHING LICENCES

We generally agree with your assessment. We are taking action in the short term to address some of these deficiencies and we are implementing a new Outdoors Card in 1993 which will lead to the establishment of a new Point of Sale System for 1994/95.

Beginning in 1990, the Ministry decentralized the responsibility for hunting and fishing licences to its 47 district offices, including the administration of revenue collection. In support of the decentralization, a new District Revenue and Accounting Management System (DRAMS) is being implemented across the Province.

DRAMS allows districts to input their own information locally, producing more timely statements, and providing an improved ability to monitor accounts. Some districts have been on the new system for up to two years and have noted a significant improvement in the timeliness of information and their ability to monitor licence issuer accounts. Other districts are not yet on the new system and are experiencing problems because of unreliable and untimely information from the current system which requires districts to manually transmit data to Main Office for input into the licensing and revenue system. When these districts convert to DRAMS, these problems will largely disappear, giving improved results for this function.

In April 1992, when we were advised of the preliminary audit findings, all Regional Directors were instructed to develop an action plan to deal with delinquent licence issuers. The clean up is currently underway. Also, we are continuing to implement DRAMS in the remaining Districts. Action will be taken to remind licence issuers and District staff to comply with existing policies and procedures to remit revenues on a timely basis.

The Ministry plans to issue the Outdoors Card, a new identification card, to all 1.5 million active hunters and anglers in Ontario on January 1, 1993. The Outdoors Card will be a mandatory part of the licensing system and it is being introduced to make Ontario fishing and hunting system more efficient for card holders and issuers.

The new Outdoors Card was recommended in a report prepared by [the] Parliamentary Assistant to the Minister, who developed recommendations after discussions with the user community. The

hunters and anglers wanted a weatherproof, easy-to-read licence, fewer pieces of paper to carry and the ability to purchase all of their licences at one time. In addition, the hunters wanted less chance of mistake in the adult moose tag validation draw.

It will also improve the Ministry's licensing system ,giving better accounting control over issuers, a better data bank on licence holders, improved collection of funds from issuers in default, decentralized management of issuers, centralized control of funds and collections from defaulters, and reduced workload in supplying licences.

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The next step is to establish licence issuer system, called a Point of Sale (POS) system for 1994/95. Under the new system, an issuer will lease a computer terminal which can be used to verify a person's entitlement to purchase a particular licence. It will also issue the actual licence in computer-generated form and immediately record the accounts receivable from the issuer. The POS system will collect licence revenues automatically via Electronic Funds Transfer, using direct debit of the issuer's bank account. The POS system will update the issuer's account automatically, rather than having the issuer file a monthly report as is currently done.

Each month, issuers will receive statements of their accounts showing all licensing activity and the electronic funds transfer debits processed. This will eliminate both the need for the issuer returns and for reconciliation of outstanding balances. This should result in a three- to four-month gain in the receipt of monies from licence issuers.

Regarding administrative costs, the audit report questioned the need for the existing network of 4,200 licence issuers in the province, especially those selling a small number of the licences and who are located close to other issuers.

In June 1992, the Minister placed an indefinite moratorium on the appointment of new fish and wildlife licence issuers. The only exceptions to this moratorium that are to be considered are requests regarding business transfers involving change of ownership of existing large volume and strategically located licensing outlets, and the Minister may consider the appointment of a new licence issuer where a significant deterioration of customer service exists in an area. This moratorium is expected to continue until we develop and fully implement the new Outdoor Card. This new system should prove much more effective than the existing system.

PUBLIC TRUSTEE OF ONTARIO:

Administration of Trusts and Estates

The Public Trustee performs duties under approximately 30 provincial and federal statutes. The primary function of the Public Trustee's Office is to administer about 21,000 clients' trusts and estates with a total asset value of $550 million. This includes approximately 17,000 trusts of persons who are mentally incompetent to manage their own financial affairs, and 4,000 estates of deceased persons, primarily intestate, who have no known relatives residing in Ontario. The Office has a staff of about 175 persons and an annual expenditure of approximately $11 million.

Our audit objective was to assess the adequacy of procedures established by the Office to administer trusts and estates.

Our audit concentrated on trust administration, close-out of trust clients' accounts, and administration of deceased people's estates. We examined a representative sample of 125 client files, had discussions with the Office's staff, and reviewed internal reports.

CONCLUSION AND FINDINGS

We concluded that the procedures established by the Office to administer trusts and estates were unsatisfactory. Of the 125 files we examined, about 55 per cent indicated deficiencies in the way the Office administers its clients' affairs.

While we recognize the Office is carrying a heavy workload, we believe that greater care and diligence is required in administering the trust and estate affairs.

Several of the deficiencies discussed in this report were reported by us in 1988. Limited corrective action has been taken to date to correct the deficiencies.

GENERAL

Unsatisfactory administration common to both trust and estate clients included:

- The Office had a heavy workload which left staff with little time to attend to clients.
- Clients' assets were often not completely or properly identified or collected. For example, after we questioned the extent of a client's assets, the Office found that the client owned additional real estate worth several million dollars.
- Clients' real estate properties were not being regularly inspected or maintained, and rent was not being regularly collected on behalf of clients. For instance, the Office had to write off $20,000 representing 18 months of rent owing to a client.
- Clients' effects such as furniture, appliances and automobiles were often disposed of for little or no proceeds. For example, a client's estate received only about $700 from the sale of the entire contents of a house even though the Office staff had valued the items to be worth $15,000.

TRUST ADMINISTRATION

Besides matters common to both trusts and estates, we found problems relating specifically to the ongoing administration of trust clients:

- Monitoring of services to clients was inadequate. Also, there was no regular review of files to help ensure that important matters were being addressed.

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CLOSE-OUT OF TRUST CLIENTS' ACCOUNTS

We concluded that inadequate service was being provided to clients and heirs by the Close-Out section, with unacceptable rates of lost files and slow service.

- There were often long delays in getting assets to discharged clients or to deceased clients' heirs. At the time of our audit, more than 1,500 files were awaiting close-out action, even though the Office's jurisdiction had ended over one year earlier.
- Misplacing client files was a serious problem since these files contain essential information to assist in returning assets to clients or their heirs.
- In many cases, the Office had made inadequate attempts to contact some heirs, and no attempts to contact other heirs.

ESTATE ADMINISTRATION

- In about half of the cases we looked at, there were few or no attempts to identify or locate heirs. When heirs are not located, the distribution of estates is delayed. If not distributed after ten years, entire estates become payable to the Province.

POSITIVE DEVELOPMENTS

- The Office installed a computer system which was proving useful to staff in their monitoring of clients' affairs.
- Clients' stock investments are now regularly reviewed by a stock brokerage firm to help ensure that clients' investments are better managed.

BACKGROUND

The administration of clients' trusts and estates is carried out by three sections within the Office:

- the Trust Administration section which manages and safeguards clients' assets and arranges payment of clients' liabilities;
- the Close-Out section which administers the closing out of accounts of trust clients; and
- the Estate Administration section which administers estates of deceased persons.

All three sections are assisted by various support sections such as Legal, Investigations, and Insurance and Pensions.

The Office charges clients an administration fee. In addition, clients pay for specific services provided by the Office or outside parties. In the 1991/92 fiscal year, the Office earned a total revenue of approximately $15 million from interest earnings and administration fees. After expenses, the Office realized a net income of $4 million.

Under current legislation, the Public Trustee is primarily responsible for the management of clients' financial affairs. Proposed new legislation is expected to expand the Public Trustee's role in making personal care decisions on behalf of mentally incapable clients.

COMMENTARY

GENERAL

WORKLOAD

Over the last four years, the total Office staffing increased by approximately 10 per cent. However, this increase has not significantly eased the workload of the staff. For example, in 1988 we reported that increased workload had prevented the Trust Administration section from routinely reviewing trust files. At the time of our audit, the section had a staff of 35 people, almost twice the number employed in 1988. The section has 11 units with each unit being responsible for approximately 1,200 client files. Thus, despite the increase in staff, a staff member can still only provide a few hours of attention to each client per year.

The heavy caseload has resulted in work backlogs and has contributed to many of the problems identified in this report.

IDENTIFYING AND COLLECTING CLIENTS' ASSETS

Clients' assets are identified and collected using reports prepared by staff investigators and information received from outside parties such as psychiatric hospitals.

Investigations typically involve visiting a client's residence to search for and gather the client's assets, important papers and records. During the 1991/92 fiscal year, the Office's six investigators carried out about 1,300 investigations. About 80 per cent of these investigations were at the request of the Trust Administration section and 20 per cent were at the request of the Estate Administration section.

At the end of each investigation, the investigator provides the requesting section with a written report. The report lists the assets and documents that were found, along with suggestions on what matters need to be further acted upon. The investigator also estimates the value of various clients' assets such as real estate, vehicles and furnishings.

The Office's investigators perform much of the work involved with initially identifying and collecting assets. With rare exceptions, the investigations are done by only one investigator. Such an arrangement puts a heavy burden on the investigator if anyone questions why an item was not found. In 1986, the Audit Services Branch of the Ministry of the Attorney General recommended that to strengthen internal control two investigators should be present at all times. There is a strong case for implementing the internal audit recommendation. Costs of investigations are charged to clients.

Additionally, the Office does not have any procedures to ensure that the Office's own investigations or information received from outside sources are promptly followed up.

We noted the following examples which illustrate the lack of control over the identification of clients' assets:

- A client owned land valued at about $5 million based on professional appraisals requested by the Office. We noted that the client's file contained correspondence from a realtor indicating that the client may have owned more land. When we questioned the Office, the matter was investigated further and it was discovered that the client owned an additional 40 acres of land. We estimated this land to be worth at least $4 million.
- An investigation at a client's home indicated that the investigator had not looked at all the papers in the house and that a further search should be conducted. Soon after, the Office learned from a trust company that the client owned additional securities worth about $180,000. However, a further search was not performed until

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one year later, at which time the investigator located the additional securities.

The Office also has the responsibility to protect and manage clients' assets. We noted shortcomings in efforts to collect assets. For example:

- The Office had obtained information that a client's assets included about $100,000 in term deposits and $60,000 in cash and Canada Savings Bonds at a bank. The Office requested the bank to remit the assets but received only the term deposits. The Office did not collect the cash and Canada Savings Bonds. Two years later, someone who claimed to have authority withdrew these assets from the bank.

  After a further three years, the Office was faced with legal action from the client's beneficiaries for not collecting all of the assets. The Office informed us that the case was settled out of court with other defendants agreeing to repay the beneficiaries, and the Office agreeing to pay some of the plaintiff's legal costs.

- The Office was repeatedly notified by Veterans Affairs Canada that it was holding pension funds of about $85,000 for an estate client. The Office responded to the first notification saying that the file was already closed and that there was no useful purpose in reopening the file to receive funds. After a year of receiving objections from Veterans Affairs, the Office eventually accepted the funds and paid them to a beneficiary of the estate.

We recommended that procedures be established to ensure that clients' assets are identified and collected in a timely and complete manner.

MANAGEMENT OF REAL ESTATE PROPERTIES

The Office is responsible for approximately 800 real estate properties with a value of about $80 million. The majority of these properties are residential homes and the rest are other types of properties such as vacant land, farm properties and cottages.

The Office does not ensure that clients' properties are regularly inspected or maintained. In cases of rental properties, there were no arrangements to have someone go to the properties to collect rent each month or to initiate annual rental increases.

For example:

- The Office did not maintain a client's house to meet even the minimum standards of a municipality. In June 1988, the municipality issued a notice of property defects listing 22 items in need of repair. Despite repeated notices from the municipality, the Office did not repair the deficiencies. Then, in November 1989, the Office charged $600 to the client for fines and legal expenses upon pleading guilty of disobeying the municipality's orders.
- The Office did not arrange for lawn and hedge maintenance of a client's residential property even after a neighbour complained about the property's unsightly condition. Consequently, the municipality billed $300 for carrying out some of the maintenance work which the Office charged to the client.
- The Office did not send anyone to a client's premises to collect rent for many months. Subsequently, the Office wrote off about $20,000 representing 18 months of rental arrears owing to the client.

We recommended that the Office consider engaging a professional property manage-

ment firm. The firm's fees would be chargeable to the clients.

SALE OF CLIENTS' EFFECTS

The Office engages the services of auctioneers to dispose of clients' effects such as furniture, appliances, paintings and other household items. About 200 auction sales are held each year.

The auctioneers take possession of the items to be auctioned and, after the auction, remit a cheque to the Office for the net proceeds of the auction together with an accounting statement. The statement details the items sold, the amount received for each item and the amount of the auctioneers' commission, cartage and dumping charges.

We concluded that the Office did not adequately monitor the activities of auctioneers:

- Auctioneers have not been competitively selected by the Office. The Office did not keep a list of auctioneers it has dealt with over the years or a record of the number and value of transactions with each auctioneer. Concerns were expressed to us by staff about excessive charges being imposed by some of the auctioneers being used. For example, in one case, an Office investigator had valued a client's effects at $15,000. The auction sale raised only $3,000 but after deduction of the auctioneer's commission and cartage charges, the client received only $700.
- In another case, the proceeds from an auction were approximately $2,000 but the client received nothing. In fact, the client was charged approximately $400 to cover the shortfall in the auctioneer's commission and cartage charges. Both cases were questioned by the Office's senior management. However, there was no documentation on file to explain whether the Office was satisfied with the performance of the auctioneers.
- Auction sales were rarely attended by the Office's staff.
- There were no comparisons of auctioneers' reports with the clients' asset listings to ensure that all saleable items were either sold or returned to the Office.
- The Office did not ensure that sale proceeds were submitted promptly by auctioneers. As of January, 1992 there were about 50 accounts for which the Office had not received any payments from the auctioneers. Fifteen of the accounts were over six months old. One of these accounts was outstanding for over two years.

We recommended that controls over auction sales be strengthened.

TRUST ADMINISTRATION

SERVICE TO CLIENTS

Service to clients is an important element of the Office's functions, especially because many of the clients are ill or disabled.

Providing adequate service to clients involves communicating effectively with clients, meeting their financial needs, promptly responding to their problems, and making reasonable decisions concerning their money. We had concerns regarding these areas. For example:

- The Office does not distinguish between clients who are in need of considerable ongoing attention and those who require relatively little attention. Trust Administration staff acknowledged that there were some files which had not been looked at for many years.

  Trust administration staff have never met most of their clients. While the staff agreed that in-person meetings would help them to better assess clients' needs, they indicated that there was no time to meet with the clients.

3.15

Most client contact was by letter or by telephone.

- We questioned how the Office ensured that clients' financial needs were being adequately met. Files lacked information showing how the Office had determined the amount of monthly allowances being paid to clients to meet their food, transportation and other needs.

  In one case, a client had the monthly allowance payment cut from $900 per month to $400 per month. There were no explanations on file as to why the payment was cut nor any analysis showing how the amounts were calculated. The client had complained to a lawyer that funds were not at the client's disposal, and that the client had to depend upon others for even daily food.

- The Office's procedures were inadequate to ensure that clients' problems were promptly resolved. This was the case even when the problems had been identified by the Office's own investigators.

  There was no regular review of files to determine changing circumstances and to ensure that clients' problems were addressed. Trust Administration staff generally only looked at a file in response to a question or event that they had been informed about. We noted instances of unresolved problems which should have received prompt attention:

  - In 1989, an investigator pointed out that the central heating in a client's home was inoperative and that the house needed considerable repairs. At the time of our audit, no corrective action had been taken.

    Furthermore, the investigator had also suggested calling in the public health authorities. Nothing had been done until we pointed this matter out to the Office.

  - A client had been billed $6,000 per month since November 1991 for residing in a private nursing home. About $4,500 of this cost was to pay for a full-time attendant from a nursing agency. The attendant supervised the client's allegedly excessive smoking habit and aggressive behaviour. Under this arrangement, the client's total assets of about $100,000 were being rapidly depleted.

    From the beginning, the Office had recognized a need to quickly relocate the client. However, at the time of our audit, the Office had made only a limited attempt to find alternative accommodation for the client.

- The Office's procedures to ensure that clients received goods or services at a reasonable cost were inadequate. To illustrate:

  - The Office often did not select goods or services for clients on the basis of competitive selection. For instance, since 1989 all clients' homes have been sold through one realty company which was not competitively selected. During this time, the selected realtor received about $1 million in commissions on sales of over 200 clients' real estate properties. If a competitive selection process had been used, the Office might have been able to obtain a more favourable commission rate, resulting in higher net proceeds for clients on the sale of their homes.

  - The Office often did not verify the legitimacy and accuracy of billings to clients' accounts. For example, there were errors in billings from nursing homes which were never noticed by the Office. In one instance, a $1,000 payment was not credited to a client's account. The

Office contacted the home and it admitted to having made an error.

We recommended that the Office review its current practices to improve service to clients.

CLOSE-OUT OF TRUST CLIENTS' ACCOUNTS

The section has approximately 15 staff who handle about 1,800 accounts a year. About 3,000 clients' accounts are currently waiting to be closed out by the section.

The need for closing out a client's account occurs when the Public Trustee's authority ceases either because the client is deemed legally competent to manage his or her own affairs or someone else is appointed to manage the client's financial affairs, or because a client has died.

CLIENTS' ASSETS

In 1988, we reported that the Office was too slow in getting clients' assets distributed to persons legally entitled to receive them. We noted that at the time of our 1992 audit, the delays had worsened.

We mentioned in 1988 that the Close-Out section had about 500 files for which the Office's jurisdiction had ended for more than a year. At that time these files represented 30 per cent of all files awaiting close-out action. These figures had risen substantially by the time of our audit to over 1,500 files, or over 50 per cent of all files waiting to be closed out. In 1991 alone the section's caseload increased by 600 more cases than the number of files closed.

The Office gives discharge cases priority over files of deceased clients. However, there were significant backlogs even in discharge cases. For example:

- A client was ruled to be competent to manage the client's own affairs in 1988. However, even after more than three years, assets totalling about $10,000 were never returned to the client. When we asked the Close-Out section about this case, we were told that the section had forgotten about this client. On our request, the section looked at this case and stated that they could not now readily return the assets because the client's current whereabouts were unknown.
- A client was discharged in March 1988, at which time the client signed a form to receive a $3,000 cash balance. The money was never forwarded to the client. The Office has lost track of the client's whereabouts.

CLIENTS' FILES

The Close-Out section was often slow in locating files we requested and in some cases could not find the files at all. This problem was also reported by the Audit Services Branch of the Ministry of the Attorney General in 1989.

The Office's staff acknowledged that misplacing close-out files was a major problem. One staff member indicated that one third of the section's staff time was spent on trying to locate files.

Other sections of the Office used a computerized file tracking and storage system. Such a system should be considered for the Close-Out section.

COMMUNICATION WITH HEIRS

We found many cases where there had been inadequate attempts to contact heirs following the death of clients. We noted that:

- Heirs were known but there was often no evidence of attempts having been made to communicate with them. There was a lack of follow-up on correspondence when no replies were received or when letters were returned undelivered.

  For example, a client with an estate valued at about $190,000 in 1992 dollars

died in 1986. Over five years later this account still remained to be closed out. The Office attempted to contact only one out of eight identified relatives. There was no follow up to contact even this one heir after a 1987 letter was returned undelivered.

- A client with an estate valued at about $135,000 died in 1987. The client's file indicated that the deceased had a sister and grandchildren. However, there was no evidence that the Office had tried to contact them.
- Contacting heirs was often hampered because the Office had not performed an exhaustive search for testamentary wills of clients when they were still alive. Also, in some cases, the Office had obtained wills but had lost them.

We recommended that the Office increase its efforts to communicate with heirs.

ESTATE ADMINISTRATION

Estates are administered by three estate officers of the Estate Administration section, with the support of three lawyers. The section has about 4,000 clients with assets valued at about $75 million. These clients consist primarily of estates of persons who have died without a will who do not have known relatives residing in Ontario.

LOCATING HEIRS

The Office did not have any procedures for conducting an exhaustive search for heirs. Thus, many essential ways to find heirs are often not used. Specifically, we noted that the Office was inconsistent in its use of experts, such as genealogists, to search for family members. The fees of such experts are borne by the estate and not the Office. The lack of searching for heirs could put the Office in a conflict of interest situation because the assets of an estate become payable to the Province after ten years from the date of death. Over the past twenty years, the Office has paid about $18 million to the Province from undistributed estates.

To illustrate:

- The Office had not identified any heirs for an estate worth $600,000 which the Office had been administering since 1990. Even though this was a large estate, the Office had not used the services of a family search expert.
- The Office administered an estate worth about $270,000 since 1982. The Office also managed the estate between 1974 and 1981 while the client was still living. Even though the Office was involved with the client for over 15 years, the file contained no evidence that any attempts had been made to locate possible heirs. The deceased's spouse, who was also a client of the Office, stated in 1976 that the deceased had a child. However, there was no evidence that the Office had ever investigated the possibility of a surviving child or grandchild.
- An estate worth about $120,000 had been administered by the Office since 1982. In 1989, the Office engaged a family search expert to report on possible heirs. The expert checked for relatives and indicated that the nearest relatives were likely to be an undetermined number of second cousins. The Office did not obtain a further investigation to locate or identify any surviving second cousins.

We recommended that the Office develop a policy requiring consistent efforts to search for heirs.

POSITIVE DEVELOPMENTS

NEW COMPUTER SYSTEM

In May 1991 the Office implemented a new computer system which provides instant access to clients' current and historical information. Office staff can now make more informed decisions about clients'

affairs. The previous computer system generated most reports on a monthly basis only.

CLIENTS' STOCK INVESTMENTS

As of March 31, 1992 clients' stock holdings amounted to approximately $16 million. In the past there was no professional review of clients' stock portfolios. A stock brokerage firm now regularly reviews all clients' stock investments. The firm, engaged in 1991, recommends which stocks to hold and which to sell. This arrangement should help to ensure that clients' investments are better managed.

RESPONSE

The Public Trustee responded to our report on September 18:

Some general observations:

- *The deficiencies identified occurred over five to eight years. They did not occur all in one year. During that time we would have opened 2,500 new files and closed a similar number annually. We have a constant file count of 21,000 files.*
- *This office has an enormous workload that has increased over the last five years.*
- *This office has carried out a number of special audits and reviews since 1988 with a view to identifying backlogs and correcting them.*
- *This office has undergone a series of special projects over the last five years which have stretched our resources. These were in addition to our daily workload. For example, the scoping, tendering, contracting, designing, construction, training and implementation of the Computer System Project was a continuous two-year super project that was carried on over and above the daily workload of this office throughout 1989 and 1990. It is this project, more than any other, that caused the long-term distraction from our normal duties.*
- *This office paid all of its expenses over the last five years, and transferred $81 million to the consolidated revenue fund.*
- *Our clients have special service needs and they require a large "social work" component.*
- *This office has been under annual hiring freezes and constraints since 1988.*
- *We have given special priority to our most needy clients by setting up our Family Benefits Section. This is four staff concentrated to help 700 of our most needy clients.*
- *We have a priority system of serving clients. New files get top priority. Trust staff establish priorities on a daily basis.*

GENERAL

IDENTIFYING AND COLLECTING CLIENTS' ASSETS

Recommendation: *Two investigators should be used at all times to prevent theft and allegations of theft.*

- *This is an understandable recommendation. No theft or allegations have been made. It would result in double charges to clients. Usually our investigators enter onto a client's premises with*

family, landlords, etc. Often our investigations are conducted long after other people have had access to our clients' homes.

Recommendation: *Identify and collect clients' assets in a timely and complete manner.*

- *We agree. We have established a full-time internal audit program to monitor this.*

MANAGEMENT OF REAL ESTATE PROPERTIES

Recommendation: *Use outside professional Property Management firm to manage clients' property.*

- *We agree. The tender is being prepared. This will result in costs to clients.*

3.15

When it is remembered that our clients' 800 properties are located all over the Province of Ontario, it is easier to understand why our clients' properties are not regularly inspected or maintained. We do inspect property at the outset and develop an administration plan for the property. Often our clients are asset rich (they may own a house or farm) but they are cash poor and they have no funds to repair or maintain their property. The Public Trustee has no funds to maintain or repair the properties for them. If the property is to be kept then monies can be raised by a mortgage but the client usually can't pay the mortgage. The only option here is a reverse mortgage, the arrangement of which is time consuming and difficult. Usually the reverse mortgages are offered for only five years with a full pay back at that time which our client won't be able to meet.

Our client may only be a joint owner of property which would then require the concurrence and contribution of someone else to repair or maintain the property which is not always obtained. Therefore knowing about property and knowing that it requires repair are only the first steps in a complex and costly process which can be unaffordable to most of our clients.

Where we know there are tenants this office should set this up as a receivable and collect the rents without question. It may be difficult to pursue annual increases because the tenants are often related to the client.

We have decided to tender our clients' real property management to an outside source. Internal and external repairs, maintenance, grass cutting, rent collecting, winterization, etc. can all be done province-wide by professional property managers whose fees and expenses can be charged back to the individual estates or trust assets directly. This will mean a significant additional burden to each property owner and may have to result in a reduction of our management fees that we charge the client. This process will be completed this year.

SALE OF CLIENTS' EFFECTS

Recommendation: *Should have tighter controls over auction sales.*

- *This was reviewed in 1990. This is desirable but difficult. Perhaps property managers can do this.*

The discrepancies between our investigators' assessment of the worth of the contents of a house and the ultimate net proceeds from the auction may be explained in a number of ways.

- *Our investigators are not professional appraisers and are only giving a 'ball park' assessment of the contents worth.*
- *Not all the goods listed by our Investigator at the time of inventory taking were sold ultimately by auction. Some may have gone with the owner to a nursing home or have been bequeathed in a Will and are put in storage.*

- *The costs of cleaning out our clients' properties are extensive and often include cartage and 'dump' charges or special charges for environmentally unsafe substances which costs, along with the auctioneer's costs described above, are deducted from the sale proceeds.*

TRUST ADMINISTRATION

SERVICE TO CLIENTS

Recommendation: *Identify clients by the level of attention they need.*

- *This is done with all new files which get priority. It is also done on a daily basis. Better file monitoring may improve this. Province-wide contact with clients can only achieved by local offices. The FBA clients have been segregated already.*

Recommendation: *Improve service to clients.*

- *We would like to do this. We must strike a sensible balance between money/asset administration and social worker role. This is difficult. Obviously more resources are required.*

CLOSE-OUT OF TRUST CLIENTS' ACCOUNTS

CLIENTS' ASSETS AND CLIENTS' FILES

Recommendation: *Eliminate delays in "Close-out" Section.*

- *We agree with this. We have made two major re-organizations to deal with this. We require additional skilled staff.*

COMMUNICATION WITH HEIRS

Recommendation: *Increase efforts to communicate with heirs.*

- *We agree. This is very time consuming and, interestingly, heirs do not readily come forward. Staff have been encouraged in the past to do this. We may achieve this through our plan to out-source heirship searches generally.*

ESTATE ADMINISTRATION

LOCATING HEIRS

Recommendation: *Estates Administration to expend greater effort to look for heirs.*

- *We agree. This will be out-sourced and charged to estate. We have distributed 55 per cent of all crown estates in the past year. This is a substantial increase.*

There is no legal duty for this office to carry out an extensive heir search activity of "crown" files. The courts, if asked on an application for advice and guidance, will not make a finding that an estate has "escheated" to the Crown. Other Public Trustees canvassed across Canada reported very little, if any, activities carried out by them to search for heirs. If estates are turned over to "heir tracers" they will often demand and get between 30 per cent to 50 per cent of the estate from heirs. Heir tracing is immensely time consuming and costly. We do not have the staff for this activity.

Nevertheless, it has been decided that this activity will be out-sourced to private legal firms to carry out the work with direct charges being made against the estate. They will retain genealogists, place

newspaper advertisements and communicate with foreign Consulates in an attempt to create activity in this area. In most files this will not produce exhaustive, conclusive proof of heirship, but it will serve to demonstrate activity and to eliminate the perceived conflict of interest that this office might have administering those files that end up escheating to the Crown ultimately. The outsourcing of this work will be by tender and should be completed this fall and will likely result in costly charges against each estate.

We have reviewed all of the files referred to and made corrections. Our failure to deal with details is a matter of monitoring, work load and staffing and the fact that our office was focused on the new computer system for two years.

The deficiencies occur over a long period of time. In the best of all worlds they would not occur. The changes described above should help our workload and, as a result, improve the service.

3.15 POSITIVE DEVELOPMENTS

You have mentioned two significant positive developments in your report. We like to think that there are many more, such as these which have been listed previously:

- *Implementation of Personal Needs Allowance system for the Ministry of Community and Social Services for 7,000 clients;*
- *Complete Revaluation of Real Estate;*
- *Appraisal of all Jewellery, Coin and Stamp Collections;*
- *New Banking Services Tender and Contract; and*
- *Implementation of policy and procedures of GST - (56,000 cheques annually).*

To be fair to our staff and to our clients the office will require additional staff.

MINISTRY OF REVENUE:

Employer Health Tax

The Employer Health Tax (EHT) was introduced to replace the Ontario Health Insurance Plan (OHIP) premium system of health care coverage by taxing the payrolls of employers. There are some 370,000 active employer accounts administered by 132 staff at a cost of $10.6 million in fiscal 1991/92. EHT revenues for fiscal 1991/92 were $2.65 billion.

We assessed the Ministry of Revenue's systems and procedures to collect all the Employer Health Tax (EHT) to which the Province is entitled.

Our conclusion and findings are based on a review of tax roll maintenance, compliance with tax legislation and payment processing activities at the head office of the Employer Health Tax Branch and the largest three of its six regional offices. Together, these three regional offices administer over two thirds of all EHT accounts.

CONCLUSION AND FINDINGS

The Ministry had about nine months to design and implement the Employer Health Tax program. Understandably, its initial emphasis was on installing the basic systems and procedures to collect this new tax. While it was successful in implementing these systems and procedures on time and within budget, controls to ensure that the Ministry was collecting all tax it was entitled to were less than satisfactory.

- There were efficient systems and procedures to ensure that all employer remittances were recorded and deposited on a timely basis.
- The Ministry did not audit employer payrolls to verify the accuracy of the EHT remitted. The Ministry estimated that lost revenues from both underreported payrolls and from unregistered employers is about $140 million annually. Several options should be pursued to obtain audit coverage.
- Employer account balances contained significant errors because the system processed remittance forms which had not been properly completed by employers. Consequently, employers received erroneous statements, about $5 million had been incorrectly credited to employer accounts, and collection efforts have been significantly delayed.

BACKGROUND

In mid-1989, Management Board approved expenditures of $47.3 million to the end of April 1992 to implement and operate the Employer Health Tax. Once approved, the Ministry had nine months to design and put in place a computer system and administrative staff to begin collecting the tax in January 1990. The *Employer Health Tax Act* was passed on December 19, 1989.

The Employer Health Tax was operational in January 1990 and three-year costs to April 1992 totalled $44.9 million, or $2.4 million less than budgeted.

While revenue generated from OHIP premiums in 1989/90 was $1.4 billion, revenue from Employer Health Tax (EHT)

was $2.66 billion in 1990/91 and $2.65 billion in 1991/92.

There are nine graduated tax rates in effect, with the lowest rate of .98 per cent applying to those employers with a total annual payroll of $200,000 or less. The highest rate of 1.95 per cent applies to those employers with a total annual payroll greater than $400,000.

There are currently 370,000 active employer accounts on the tax roll. The Act requires the 33,000 employers having payrolls exceeding $400,000 to remit monthly tax payments while the remaining 337,000 remit quarterly payments.

3.16

The Employer Health Tax is administered by 102 staff in six regional offices and an additional 30 staff members at the Branch's head office in Oshawa. All employer accounts are administered regionally through Tax Roll Administrators and Collection Specialists. Head Office processes remittances and annual returns. In addition, head office provides administrative, systems and legislative support to the regional offices.

COMMENTARY

DEPOSIT OF EMPLOYER REMITTANCES

All employer tax payments and remittance statements are processed by the Ministry's Taxation Data Centre. Employers may remit payments by mail, by hand delivery to a regional office or head office, have payroll agencies deduct the tax and remit it, or pay at their bank for forwarding to the Ministry.

We reviewed the processing of remittances by the Centre and found that:

- remittance payments were optically scanned into the system where possible to increase efficiency;
- duties were segregated between mail handling, data entry, and cash depositing activities; and
- receipts were deposited daily at the bank.

In addition, all deposits were reconciled daily by the EHT Branch to payments processed by the computer. We were satisfied that systems and procedures were in place and operating efficiently to ensure that all employer remittances were recorded and deposited on a timely basis.

REGISTRATION OF EMPLOYERS

To build the initial tax roll of employers in the province, the Ministry mailed questionnaires to employers potentially eligible to pay the tax. These employers were identified from payroll data supplied by Revenue Canada to the Ministry under the existing Federal/Ontario Exchange Agreement of 1983. Based on responses to the questions, an employer would either be registered to receive monthly or quarterly statements requesting payment, or would be categorized as ineligible to pay the tax.

To update the tax roll with new employers and to change the status of those becoming inactive, the Ministry processes data provided by Revenue Canada 11 times a year. In addition, new employers sometimes voluntarily identify themselves to the Ministry before Revenue Canada provides the Ministry with data.

As of April 1992 over 3,200 questionnaires had not been responded to by employers. Our review of outstanding questionnaires at three of the six regional offices showed that they were not followed up on a timely basis. At two regional offices, 1,200 questionnaires were outstanding for more than 90 days. While one regional office had 99

out of 365, or 27 per cent outstanding for more than seven months, the other had 530 out of 833, or 64 per cent outstanding for more than 11 months.

The third office encouraged employers not responding to questionnaires to do so by automatically registering them and sending statements requesting payment. The employer then had to contact the regional office to change the employer status if necessary. This office estimated that about 40 per cent of employers who had ignored all previous Ministry contact should have been paying the tax. If these results are representative, then about 1,300 more employers are active and should be registered and paying EHT. This excludes any employers who have also failed to register with Revenue Canada.

AUDITING EMPLOYERS

To ensure registered employers pay all taxes that are due, audits are required to verify the accuracy of reported payrolls.

In its original 1989 submission to Management Board, the Ministry requested 66 auditors and five audit managers to cover 2.5 per cent of the tax roll annually. The Ministry estimated audit enhancement efforts of other taxation programs would increase the annual audit coverage to 3.5 per cent. However, the request for audit resources was not approved.

In 1991/92, the Province of Manitoba, with a similar payroll tax levied on employers with payrolls greater than $600,000, recovered $4.2 million or 2.2 per cent of tax revenues based on a 35 per cent audit coverage.

If only 3.5 per cent coverage were achieved in Ontario on employers with a payroll greater than $600,000 per year, the effort would require only seven auditors at an annual cost of $400,000. About $5 million could be recovered.

However, the Ministry audits should also include smaller taxpayers. The degree of voluntary compliance varies directly with taxpayers' perception of the risk of being audited. In fact, the Ministry estimates, based on Revenue Canada's payroll audit experience with both registered and unregistered employers, that payrolls are underreported on average by 5 per cent, meaning lost EHT revenues of about $140 million per year.

Several options should be considered to obtain efficient and effective audit coverage while minimizing the burden placed on employers. These options include:

- co-ordinating or combining audit efforts with other Taxation Branches such as Retail Sales Tax or Corporations Tax. As EHT is less complex, some co-ordinated or combined audit work might be feasible to reduce the cost and frequency of employer visits; and
- co-ordinating audits and sharing results and information with the significant payroll audit functions of Revenue Canada and the Workers' Compensation Board.

We understand that information sharing arrangements are being planned by the Ministry and that legislative changes are being pursued to permit information exchanges with the Workers' Compensation Board.

CORRECTING ACCOUNT BALANCES

The Employer Health Tax system generates statements either monthly or quarterly for 370,000 accounts informing taxpayers of the amount due and interest charges or credits.

As of April 1992, 45 of 120 accounts we tested in three regions were inaccurate. The major reason for these errors is that the system was not designed to cope with employers who record remuneration

incorrectly on the remittance forms. A number of problems have resulted.

OVERSTATED EMPLOYER LIABILITIES

Despite carefully designed forms and reminders, several employers filled in cents on the remittance form where only whole dollars were to be reported. The optical scanner reading remittances recorded the whole amount as dollars. As a result, the employers' remuneration was inflated one hundred times creating a greater tax liability than actually existed.

3.16

The accounts receivable balance increased by almost $900 million in one day alone in 1992 due to six employers making the same error. Assessments are automatically sent out to these employers requesting payment of the unpaid balance. We estimated over 2,500 accounts had the same problem.

While employer complaints about incorrect assessments may ensure accounts are subsequently corrected, mailing incorrect statements to taxpayers may damage the credibility of the Ministry as well as efforts to encourage voluntary compliance. We recommend that management examine the costs and benefits of other manual and automated reasonableness and edit checks prior to updating accounts and mailing assessments.

ACCURACY OF INTEREST CREDITS

Another problem occurred when the employer did not fill in any amount of remuneration on the remittance form. The optical scanner was set up to interpret blanks as zeroes. As a result, the computer system believed the employer overpaid and calculated and compounded credit interest on a monthly basis to the account. We estimated that about $5 million was erroneously credited to employer accounts as a result.

The system has now been changed to calculate sufficient remuneration to offset any payments made when the payroll amount has not been filled in. Erroneous interest will no longer be credited in such instances. However, previous errors had not been corrected by the end of our audit in July 1992.

TIMELINESS OF COLLECTION EFFORTS

Errors in employer accounts have also significantly delayed collection efforts. Although Ministry reports showed more than $265 million in delinquent accounts as of April 1992, we estimated that less than $26 million was truly owing due to processing errors.

In order to maximize the collection effort, Tax Roll Administrators must first analyze accounts to determine the correct balances before referring delinquent accounts to a Collection Specialist. This analysis was not always thorough. In fact, in a sample of 60 accounts deemed delinquent and referred to Collection Specialists at three regional offices, only 47 did in fact owe taxes.

Uncollected account balances were owing on average for 3.5 months, 5.5 months, and 9 months respectively in the three offices visited. In the office experiencing the shortest average delinquency we noted that 3 of 13 Tax Roll Administrators were devoted primarily to analyzing and correcting the accuracy of the region's account balances. In the other two offices, Tax Roll Administrators verified account balances on a part-time basis. Other offices may improve collection effort through a more dedicated approach to account analysis and correction.

RESPONSE

The Deputy Minister of Revenue responded to our audit report on August 27:

REGISTRATION OF EMPLOYERS

All mailed questionnaires are followed up. The EHT computer system automatically produces a repeat questionnaire if no reply is received within 30 days. If the second request does not produce a response within another 30 days, a reminder is automatically sent out. Outstanding questionnaires are then assigned to Taxroll Administrators for tracing action and telephone contact.

In line with the staff empowerment philosophy of the EHT Branch, regional offices are encouraged to experiment with procedures in the search for cost efficiency. This was particularly true at the outset of the program in 1990 and 1991. The most efficient and effective procedures will be consolidated in a Branch policy for general application.

AUDITING EMPLOYERS

While we do not agree that the Manitoba experience is necessarily applicable to Ontario, the Ministry believes strongly that an audit function is essential in protecting the tax base, and is again pursuing funding for this, along with the program extension of health tax to the self-employed announced in the 1992 Budget. For various reasons, including the fact that payroll records are not examined in the normal course of corporations tax or retail sales tax audits, the Ministry does not believe that diversion of audit resources from other taxes would be cost effective. However, retail sales tax auditors have been used to verify EHT rebate applications in respect of fixed price construction contracts. Although the rate of tax is comparatively low, the Ministry has no doubt that an EHT audit function would not only pay for itself, but also reduce the net costs of administering the tax to a significant extent.

CORRECTING ACCOUNT BALANCES

The current system does include automated edit checks including reasonableness tests, and a subsequent exception report is manually actioned daily; however, this area will be re-examined for potential enhancements as part of the new system design, later this year.

All significant erroneous interest credits were corrected prior to the system change in mid 1991, but no special summary record was produced. It would be possible, though costly, to write a special program to extract details of the corrections.

As noted above, flexibility and innovation by the individual regional offices are encouraged. Since there were no tested procedures at the outset of the program, pilot projects were undertaken. The results of these activities are evaluated by the Branch and adopted if found to be cost-effective.

MINISTRY OF REVENUE:

Property Assessment Operations

3.17

The Ministry of Revenue spent $102 million in the 1991 fiscal year on the property Assessment Field Operations Activity which is responsible for assessing all properties in 839 local municipalities in Ontario. These property assessments provide the basis upon which municipalities raise property and business tax, which amounted to $13.1 billion in the 1990 calendar year.

Our objectives were to assess:

- whether procedures were adequate to ensure that assessment rolls were complete and delivered to the particular municipality on a timely basis as required by legislation; and
- whether assessment activities were being performed in a cost-effective manner.

Our audit was conducted both at the Ministry's Head Office and 5 of the 31 Regional Assessment Offices (RAO) and 10 sub-offices. We obtained information from other RAOs and municipalities by means of a questionnaire. We also interviewed officials from municipalities and the real estate industry, as well as the Assessment Review Board, Ontario Municipal Board, Association of Municipal Officers, and the Association of Municipal Tax Collectors.

CONCLUSIONS AND FINDINGS

COMPLETENESS AND TIMELINESS

Procedures to ensure timely delivery of assessment rolls were satisfactory. Assessment rolls were generally complete, except for property improvements and new businesses.

- Changes to properties were not assessed on a timely basis for inclusion in the assessment rolls.
- New businesses were not promptly assessed for inclusion in assessment rolls. It is estimated that inclusion of these new businesses on a more timely basis could result in as much as $75 million in additional annual tax revenue.

ASSESSMENT ACTIVITIES

Certain assessment activities, such as the reassessment of properties to market value, were performed in a satisfactory manner.

- Over 80 per cent of market value reassessment studies carried out by RAOs were accepted by municipalities. The objective of such assessments is to ensure that properties of comparable market values located in the same municipality pay similar property taxes.

However, the cost effectiveness of the reinspection function was less than satisfactory.

- On their initial visits to reinspect residential properties, assessors were unable to gain entry to over 55 per cent of homes. This is a substantial and inefficient use of assessor time.
- Approximately 80 per cent of assessors sampled did not feel that drive-by visual inspection (windshielding) was an effective method of performing a reinspection. Yet, 30 per cent of assessors sampled still practised this method of reinspection.
- Most RAOs have not instituted work performance standards to measure assessors' productivity.

BACKGROUND

In 1970, the Province assumed responsibility for property assessment from municipalities because of inconsistent assessment practices and conflict between municipalities. The major responsibilities of the Assessment Field Operations Activity are to produce annual and supplementary assessment rolls for municipalities, reassess properties for market value, and conduct enumeration for municipal elections.

Each December the Ministry provides each municipality with an updated assessment roll listing the assessed values of all residential, commercial, industrial and farm properties in that municipality.

Each municipality multiplies the assessed value of each property and business by the appropriate mill rate to determine the amount of taxes due for that property or business. Mill rates are set by each municipality to ensure that the property and business tax revenues generated meet municipal requirements after all other revenue sources have been taken into account.

In 1990, Ontario municipalities collected property taxes of $11.6 billion and business taxes of $1.5 billion.

Staffing and the number of properties on which assessed values were provided to municipalities for the past four fiscal years are as follows:

	Assessment Staff	Number of Properties (millions)
1988/89	1,826	3.5
1989/90	1,766	3.6
1990/91	1,800	3.7
1991/92	1,777	3.7

The Assessment Field Operation Activity is delivered by 31 RAOs located across the province. Each RAO is headed by a Regional Assessment Commissioner.

COMMENTARY

COMPLETENESS AND TIMELINESS

DELIVERY OF ASSESSMENT ROLLS

The *Assessment Act* requires the Ministry to deliver annual assessment rolls to the municipalities before the third Tuesday

following the first day of December in the year.

As part of our audit, we reviewed the procedures used at five RAOs visited to ensure that they were able to meet the December deadlines. We also interviewed and surveyed municipalities to determine whether their assessment rolls were received before the specified time.

We were generally satisfied that the assessment rolls were received by the municipalities within the specified time limit. In only a few instances did we note that the assessment rolls were not returned on time, such as when the municipality had undergone a market value reassessment that year.

3.17

CHANGES TO PROPERTIES

The total value of property improvements in Ontario was estimated at $10 billion in 1991 (Statistics Canada). Building permits are required for most renovations, additions or alterations to a property.

Permits are issued by municipalities for safety standard reasons, and for monitoring and controlling changes to a property. A copy of the permit is forwarded to the RAO within which the property is located.

The *Assessment Act* requires that any changes with a value greater than $5,000 (single or cumulative value of permits) be assessed. There is a two-year limitation period for recovering taxes owed if an inspection of the property results in a higher assessed value.

Our analysis of the Ministry's computerized building inspection status report file indicated that there were approximately 14,500 building permits over two years old with a total value of $1.5 billion.

To test whether these properties had been reinspected within the two-year limitation period, we selected a sample of about 1,000 high value permits. We found that 375 of these permits had not been reinspected within the limitation period.

Given this high rate of uninspected high value permits and the $1.5 billion value of permits over two years old, total assessed property values were significantly understated. Consequently, mill rates in some municipalities may have been set higher than they would have been if building improvements had been assessed promptly.

ASSESSMENT OF NEW BUSINESSES

Business assessment is levied against those persons occupying property for the purpose of carrying out a business. The assessment is calculated by multiplying the assessed value of the property by a business percentage rate specific to the type of business as outlined in the *Assessment Act*. The business assessment is then multiplied by the commercial mill (tax) rate to yield the business tax payable, which is in addition to the property tax.

We selected a sample of 90 new 1991 businesses from the Ministry's retail sales tax vendor permit database to test whether they had been promptly assessed for inclusion in the tax rolls.

The results of our tests indicated that while the majority had been properly assessed, about 10 per cent of these new businesses were not assessed promptly for inclusion in the municipal assessment rolls. Some of these businesses were already closed or out of operation before their assessments could be done.

Responses received from the questionnaires sent to municipalities indicated that collection of taxes from new businesses was a widespread problem. One municipality estimated it had been able to collect an average of about $300,000 each year in additional taxes by ensuring that businesses had been properly assessed.

In our discussions of this issue with the Association of Municipal Tax Collectors of Ontario, it was estimated that as much as $75 million each year in business taxes had been lost by municipalities because new businesses were not being assessed on a timely basis.

We recommended that the Ministry implement the necessary procedures to ensure that all new businesses are assessed for business taxes.

ASSESSMENT ACTIVITIES

REASSESSMENT STUDIES

Inequities in assessment of properties occur when properties of similar market value in a similar class bear different rates of assessment and consequently, of taxation. In these situations, the base years for determining assessments are uneven, and the burden of taxation is not borne equitably.

For instance, an older property whose value increased considerably over the years may have a significantly lower assessed value than a new property, even though the older property may be worth more.

The *Assessment Act* provides for the Ministry of Revenue to carry out a reassessment program for the municipality whereby all properties are assessed based on updated market values. This program is designed to ensure that all similar properties of comparable market value will pay similar property taxes.

By resolution, a municipal council can request the Minister of Revenue to undertake such a tax impact reassessment study. The RAO within which the municipality is located will conduct the necessary municipal-wide reassessment study and present the municipal council with the results. The reassessment program is voluntary, and once completed, municipal councils are encouraged to analyze the tax consequences of any possible reassessment before making a final decision. A council has the option of requesting the Minister to implement market value reassessment or rejecting the study.

For the three fiscal years 1988/89 to 1990/91, 122 out of the 146 completed studies were accepted, and properties in those municipalities are now being assessed based on updated market values. This represents an 84 per cent acceptance rate, which indicates that, in general, the reassessments were perceived as being fair, consistent, and defensible.

REINSPECTIONS

The Ministry has not developed a formalized policy on the frequency of reinspections of residential properties. Reinspections of properties are done to determine whether any changes or improvements have been made which may affect assessed value.

Assessors can reinspect properties in one of various ways, including:

- physical visits to inspect the property; and
- driving through an area looking for external changes to properties.

Physical Inspection Visits

For the five RAOs visited, we reviewed inspection records to determine whether inspection of properties was being done on a timely basis and in a cost-efficient manner. Our review indicated that assessors were often unable to complete their planned inspections. For instance:

- assessors were not able to complete over 55 per cent of inspections on their initial visits as they were unable to gain entry into the property because the occupant was not present when the assessor arrived, or was not aware that the assessor would be calling. Ministry reports indicated that over 530,000

inspection visits were made in fiscal year 1990/91; and

- in one RAO, assessors were unable to gain entry in 11,000 out of 15,700 (70 per cent) of visits made.

Obviously, this method of inspection of properties was very inefficient due to wasted time. Furthermore, the property assessment records were not adequately updated, which could result in improper assessments and lost taxes. We did note that the success rate was higher in rural than in urban areas.

3.17

We recommended that the Ministry consider implementing other alternatives such as informing occupants before the planned inspection visit and implementing flexible hours so inspections could be done in the evening or weekends, when occupants are more likely to be at home.

Drive-by Visual Reinspection

Drive-by visual inspection of a property (windshielding) could result in changes to the assessed value of the property without the benefit of an internal inspection.

At the RAOs visited, we interviewed assessors and surveyed others to determine whether windshielding was an effective method of conducting a reinspection. Over 80 per cent of those contacted expressed concerns with the use of windshielding as a method of reinspecting a property. Some of the concerns expressed were as follows:

- *"The ideal reinspection means a full interior/exterior inspection of a property by an assessor."*
- *"Do not feel that it is a good way to reinspect. There are too many changes that can occur but would not be seen from a drive-by."*
- *"When inspecting properties by way of windshielding, there lies an enormous possibility for error. The problems of this method far outweigh any possible benefits."*

However, 30 per cent of those assessors surveyed indicated that they were still practising windshielding as a method of reinspecting properties.

MEASURING ASSESSORS' PRODUCTIVITY

The primary role of assessors is to make inspection visits to properties to establish an assessed value or determine whether changes have been made to the property that would effect its assessed value. Generally, assessors are assigned to a neighbourhood or on a functional basis according to the type of property such as residential or industrial.

For the five RAOs visited, we reviewed records kept for inspection visits made to properties by assessors.

Our review indicated the following:

- sufficient data were not maintained to assess the productivity of the assessors. For example, records often did not distinguish between initial inspection of properties and reinspections;
- only one RAO had formal work output performance standards in place to measure assessors' productivity; and
- in one RAO, the daily inspection visits to properties by an assessor averaged about 15 compared to a daily average of about 22 visits in the other four RAOs.

Overall, the management and reporting of assessment activities seemed very informal. Specifically, we expected that more formalized procedures would have been established for setting assessment priorities, work scheduling, and periodic reporting and evaluation of assessment results and coverage.

We acknowledge the fact that due to the mix of properties and geographic distances to be covered in an RAO, it may not be practical to establish a common set of work output performance standards applicable

to the entire Ministry. However, we do believe that standards for measuring assessors' productivity could be established for RAOs located within a geographic region, such as the western or central regions where a similar mix of properties exist.

We recommend that head office, in conjunction with RAOs, work to develop a standard assessment scheduling and reporting mechanism which could be used to evaluate assessment results and coverage, and set future assessment targets and priorities.

RESPONSE

The Deputy Minister of Revenue responded to our report on August 11:

COMPLETENESS AND TIMELINESS

DELIVERY OF ASSESSMENT ROLLS

Your report indicates that "In only a few instances did we note that the assessment rolls were not returned on time." The Assessment Act *provides the Minister with statutory authority to formally delay the return of the rolls. When the roll return has been delayed it has been within the provisions of the statutory authority and usually to permit municipalities to fully consider the impact of a proposed reassessment.*

CHANGES TO PROPERTIES

The assessment of new buildings, additions and improvements for the purpose of adding them to the assessment roll is taken very seriously by the Property Assessment Program. We recognize that "supplementary" assessment represents a significant source of new tax revenues to our municipal clients. We acknowledge that due to other workload pressures we are not always able to reinspect and value all new construction promptly.

In considering the audit results however, I think it is important to note that the 14,500 building permits over two years old represent approximately 10 per cent of the annual volume of permits. Furthermore the sample survey results which revealed that 625 of 1,000 properties had been reinspected would suggest that upwards of $1.0 billion of the $1.5 billion value of outstanding permits is properly outstanding.

In recognition of the importance of this activity the Ministry has as a priority for 1992/93 the development and installation of a new system to track building permits. The new system will improve the timeliness and accuracy of information within the offices thereby contributing to further improvement in the prioritizing of reinspection activity.

ASSESSMENT OF NEW BUSINESSES

Your report recommends that the Ministry take action "to ensure that all new businesses commencing operations are assessed for business taxes" based on a sample which reflected 90 per cent of new businesses having been properly assessed while 10 per cent had not.

Business taxes are levied on occupiers of property who carry on business at rates that vary according to the nature of the business. To support this tax base, assessors conduct an annual "commercial enumeration" to identify the occupiers and the nature of their businesses and to determine

whether changes have been made to the premises. This process produces an accurate roll at the time the enumeration is conducted. However, the transient nature of business tenancy results in an almost immediate degradation of the data and therefore, 100 per cent accuracy is not an achievable goal. The annual enumeration costs approximately $5 million. Given rates of turnover in some businesses, greater frequency of enumeration would substantially increase the cost without addressing more than a part of the outstanding 10 per cent. In an environment of competing priorities for assessors' time, we have to balance an enhancement of this function with other workload priorities such as the previously mentioned follow-up on building permit inspections to produce the maximum return on our staff time investment.

ASSESSMENT ACTIVITIES

3.17 REINSPECTIONS

Physical inspection of residential properties is necessary to maintain the integrity of the assessment base. The ideal reinspection is a full interior and exterior inspection. However, as the report notes, assessors are frequently unable to complete their planned inspections because they are unable to gain access to property.

The Ministry uses visual inspections of exteriors to at least identify those properties where major additions or renovations have occurred thereby further justifying efforts to gain interior access.

The Ministry is experimenting with flexible hours arrangements at the present time and the results will be used to share "best practices" across offices. We are also prepared to consider a pilot study of the cost-effectiveness of planned visits.

MEASURING ASSESSORS' PRODUCTIVITY

In response to your comments with respect to establishing standards for measuring assessors' productivity, the Commissioners' Management Committee, which is composed of seven Assessment Commissioners from Regions across Ontario, has established a sub-committee to deal with this issue. The goal of the subcommittee is to identify and define indicators of productivity within the key areas of program delivery, such as building permits investigation or appeals support, and to establish procedures to collect data on results in a cost-effective way. Under this system, standards would be established with variations for predominantly rural and predominantly urban Regions. A survey of the regions and head office was conducted and a preliminary report on the project delivered in January, 1992. Further definition of standards and pilot implementation are scheduled this fiscal year.

The Program has also established an advisory committee comprising both management and bargaining unit employees to study the impact of new technologies on the workforce. The advisory committee will review the standards recommended to ensure consistency with results anticipated from the introduction of new technologies.

MINISTRY OF TRANSPORTATION:

Highway Maintenance Activities

The Ministry of Transportation spends approximately $300 million annually to ensure the preservation, useability and safety of the provincial highway system through preventive and winter highway maintenance activities.

We assessed whether:

- the Ministry's preventive maintenance efforts were adequate in meeting Ministry standards for preserving highways and bridges; and
- maintenance resources, including equipment, staff and supplies, were being acquired and used in an economical and efficient manner.

Our audit was conducted at the Ministry's head office, three regional offices and five district offices. We obtained information from districts not visited by means of a questionnaire. We also interviewed officials from the Canadian Automobile Association and the Better Roads Coalition and communicated with the Ontario Trucking Association.

CONCLUSIONS AND FINDINGS

PREVENTIVE MAINTENANCE

The level of preventive maintenance currently performed by the Ministry to minimize and delay the deteriorating effects of water and salt on the province's highways and bridges is less than satisfactory.

- Current maintenance planning and the allocation of funds to the various districts is not driven by identified needs.
- Measures to protect roads from water damage are not timely. For instance, ditches, which should generally be restored within 15 years, are currently being restored at 30 to 45 year intervals. Over time this level of preventive maintenance accelerates road deterioration and increases road rehabilitation costs.
- Inspections of the 3,000 bridges in the highway system over the last three years revealed that over 1,300 of them had not received adequate routine preventive maintenance. Continued lack of bridge maintenance can accelerate deterioration and increase bridge rehabilitation costs.

ACQUISITION AND UTILIZATION OF RESOURCES

The acquisition and use of maintenance resources is less than satisfactory.

- There was a high incidence of underutilized equipment. Districts reported receiving new equipment without having requested or identified a need for it.
- Savings estimated at $1 million could be realized annually by purchasing vehicles in bulk from manufacturers rather than from local dealers.
- The Ministry has been amalgamating staff to reduce costs and streamline patrol operations. Continuation of these amalgamations province-wide

has the potential for savings in the range of $7 to $9 million annually.

- Districts with a history of low average snowfall are conducive to a one-shift system for snow plough crews instead of a two- or three-shift patrol system. An additional $3 million in salary costs can be saved annually by converting more patrols to a one-shift system.

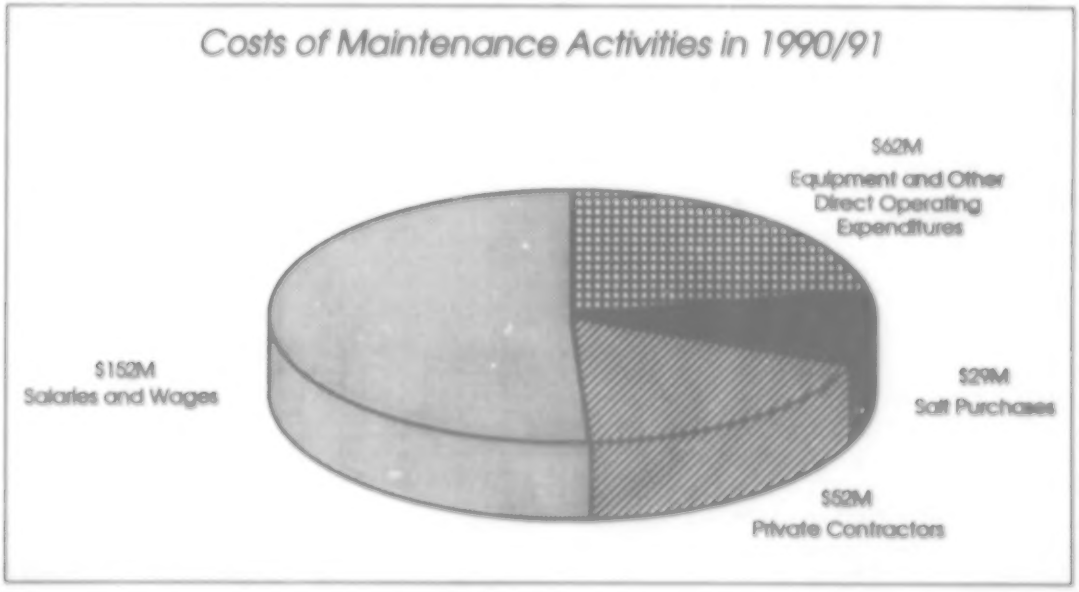
3.18 BACKGROUND

The replacement cost of Ontario's provincial highway system is estimated at around $30 billion. This network, which comprises 22,000 kilometres of highway and approximately 3,000 bridges, is vital to the social and economic health of the province. Ontario highways carried 70 per cent of all goods moved through the province in the 1989/90 fiscal year.

The objective of the Ministry's maintenance program is to ensure that highways are safe, dependable and well maintained in an environmentally responsible manner. The program has two major components—operations and general maintenance, and winter maintenance.

Operations and general maintenance activities include both minor surface repairs (for example, sealing cracks and patching potholes) and measures to prevent damage to roads and bridges from water and salt (for example, maintenance of drainage facilities around roads and periodic cleaning of bridges). Winter maintenance activities keep roads usable and safe during winter, and consist primarily of snow ploughing, salting and sanding.

These activities are delivered from five regional offices, 18 districts and 239 local patrol yards by approximately 3,700 Ministry staff and hundreds of private sector operators. The cost of these maintenance activities totalled almost $300 million in fiscal 1990/91 broken down as follows:



COMMENTARY

PREVENTIVE MAINTENANCE

PLANNING

The Ministry maintains an up-to-date inventory of the physical conditions of all provincial highways and bridges. However this inventory does not serve as the basis for prioritizing and planning for preventive maintenance. Additionally, prioritized maintenance needs are not the determining factor in the Ministry's allocation of available maintenance funds to the regions and districts. Funding is based on past practices and takes into consideration the number of highway kilometres each district is responsible for.

We recommended that a detailed preventive maintenance schedule be developed on the basis of the physical condition of all provincial highways and bridges. The schedule should identify the nature of the work required, the frequency required for specific maintenance actions, and costs associated with these actions.

PREVENTIVE MAINTENANCE ON ROADS

The Ministry recognizes the importance of good preventive maintenance as a tool to slow down deterioration and defer rehabilitation spending. A 1980 Ministry directive stated: "Preventive maintenance is expected to become a greater part of our overall road program."

In our 1985 audit of highway maintenance, we noted that this planned emphasis on preventive maintenance had not yet been undertaken. We noted that this planned initiative had still not been implemented as preventive maintenance spending on roads and bridges has dropped from $33 million in 1985 to $26 million in 1991.

Ministry engineers have identified the entry into and retention of water in the road base as a key factor in premature road deterioration. Good preventive maintenance of road surfaces, shoulders and drainage facilities is needed to prevent water damage. Such maintenance consists of crack filling, pothole patching, shoulder and ditch grading, and ensuring that ditches, culverts and catchbasins are kept free of dirt, debris and beaver dams so that water can flow freely away from road bases.

Ministry engineers cite good drainage as one of the most important features to ensure that pavement can withstand the effects of water, weather and traffic. Drainage systems have a high priority in road design and construction and in overall pavement management.

Our field visits to four districts, supplemented by questionnaires sent to the remaining 14 districts confirmed that Ministry standards for preventive maintenance were not being achieved. Over 80 per cent of the districts polled felt that current levels of preventive maintenance were inadequate for the long-term preservation of roads. Inadequate maintenance of drainage facilities was cited as the most common deficiency.

Two important facets of drainage maintenance are ditch grading and culvert cleaning. While Ministry standards call for these activities to be done periodically, the decision as to how often is left to the judgment of district maintenance staff.

Accordingly, we held discussions with several experienced engineering and maintenance staff in order to determine how often these activities should be performed in order to meet standards. The collective judgment of such staff was that ditching and culvert cleaning should generally be done every fifteen and five years, respectively.

Our review of recent ditching practices showed that ditching, which should be done every 15 years, is currently being done at 30 to 45 year intervals. Culvert cleaning practices were closer to meeting standards; we found that culverts were usually cleaned within eight years. In making this determination, we recognized that some ditches are maintenance free, and that ditching and culvert cleaning is occasionally performed as part of capital rehabilitation projects.

3.18

The cost of inadequate preventive maintenance can be high, as New York State's recent experience illustrates. In 1984 it launched a five-year, $7.4 billion dollar rehabilitation program to repair its deteriorating highway system. Neglect of routine preventive maintenance was cited as the primary cause of this deterioration.

In Ontario, the Ministry has grouped roads into categories of *very good, good, poor* and *substandard* based on the pavement condition.

In 1979, over 60 per cent of the province's highways were rated *good/very good* whereas *poor/substandard* roads made up less than 40 per cent. In 1991, approximately 40 per cent of roads received ratings of *good/very good.*

This deterioration may be one reason why rehabilitation costs are starting to escalate. Spending levels in 1991 represented a 65 per cent increase over spending in 1987 and total rehabilitation spending over the last five years exceeded $1 billion.

PREVENTIVE MAINTENANCE ON BRIDGES

Ontario's $2 billion bridge network is a vital part of its highway system, linking key sections of highway together over water, gullies and roadways. The 3,000 provincial bridges comprise less than 1 per cent of the system's size yet nearly 10 per cent of its value.

The Ministry and the transportation community have recognized that steel and concrete bridges are extremely vulnerable to the corrosive effects of road salt. In fact a recent Ministry study cited corrosion due to salt as the major cause of deterioration on Ontario bridges.

Our review of the adequacy of bridge maintenance included discussions with bridge engineers and field staff, analysis of spending patterns, and a computer-assisted review of approximately 3,000 detailed inspections. These inspections were performed by regional office bridge engineers outside of the maintenance function. Nearly 1,300 or approximately 45 per cent of the 3,000 bridges inspected showed signs that routine preventive maintenance was not being properly done.

Ministry bridge engineers have expressed concern about this lack of maintenance. They feel that standards are not being met and that neglect of bridge maintenance will accelerate the rate of bridge deterioration and contribute to escalating rehabilitation costs in the future. Preventive maintenance spending province-wide on bridges has dropped 60 per cent between 1987 and 1991.

Inadequate bridge maintenance can result in high rehabilitation costs. For instance, bridge rehabilitation spending between 1987 and 1991 was around $230 million. Spending rose by more than 60 per cent between 1987 and 1991.

The Ministry should consider evaluating the overall financial impact of reduced bridge maintenance on capital rehabilitation, to ensure optimal maintenance strategies are pursued.

ACQUISITION AND UTILIZATION OF RESOURCES

FLEET MANAGEMENT

The Ministry fleet, which has an estimated replacement value of $230 million, includes over 625 passenger cars, over 2,400 trucks and approximately 12,300 assorted pieces of construction and maintenance equipment. On average, almost $15 million is spent annually on acquiring new equipment.

Overall fleet management is the responsibility of the Equipment Engineering Office of the Transportation Operations Branch. Their responsibilities include developing policies for the acquisition, maintenance and replacement of Ministry vehicles. The primary function of the Ministry's 18 district garages is to maintain the Ministry equipment assigned to the district. For the year ended March 31, 1991, vehicle repair and maintenance costs amounted to almost $26 million.

Utilization of Equipment

New and replacement equipment required by the Ministry is based on input from district, regional and head office personnel. Factors considered in making these decisions include replacement criteria and utilization rates of existing equipment.

Under-utilized vehicles, as defined by the Ministry, are vehicles with usage is significantly below the Ministry average for that vehicle class. Our review of utilization rates for specific types of equipment in six districts revealed that there was a significant degree of under-utilized equipment. For instance, in the 1990/91 fiscal year, 19 per cent of cars, 36 per cent of express vans and 41 per cent of dump trucks were under-utilized. Our analysis also indicated that under-utilization of these types of vehicles has been ongoing and was not isolated to a particular year.

Equipment Rental

Approximately $10 million is spent annually on the rental of non-winter maintenance equipment. Discussion with patrol and district staff indicated that most equipment is rented because no Ministry equipment is available or it is the wrong kind, or because renting is cheaper. These observations were corroborated by a 1990 Ministry activity review report on leased equipment.

We noted a need for improved monitoring and control over rentals at the district level. For instance, tendering is only required for rentals exceeding 14 days. In the patrols we visited, we found a number of cases where rentals exceeded 14 days without tendering. For example, a tractor was rented for 252 days and snowblowers were rented for the entire winter season.

One district initiated a directive which required all patrol supervisors to contact the district equipment supervisor before leasing equipment. This allowed the district supervisor to check other patrols to determine whether the requested equipment was available internally. This directive led to a dramatic decrease in the rentals for this district. Prior to issuance of the directive, 90 rentals were made. That number dropped to 37 in the year it took effect.

We encourage other districts to adopt this procedure. Sharing equipment between districts should also be actively pursued as a method of increasing utilization rates and decreasing the number of rentals. At present, very little sharing of equipment occurs between districts.

Acquisition of Vehicles

Acquisition costs for new vehicles have averaged $15 million annually over the

past five years. In addition to purchasing vehicles for its own fleet, the Ministry of Transportation is responsible for the purchase of all Government of Ontario vehicles.

Since 1978, the Ministry has acquired its vehicles through local dealers. This necessitates sending out approximately 1,000 tenders annually. It has not been Ministry practice to allow manufacturers to bid on vehicle requirements.

3.18

Bulk purchasing from a manufact would save the Ministry money and reduce bureaucracy and administrative errors when equipment is purchased. We were informed by a manufacturer that it could offer a substantial discount over the price offered by dealers.

We also noted that prices paid to different dealers for similar equipment varied significantly. For instance, the price differentiation between two dealers for the same type of vehicle was $6,000 or about 25 per cent of the list price. In another situation the difference was $7,000. In reviewing 1990/91 fiscal year acquisitions, we found these variations amounted to over $600,000.

We estimate that, based on the manufacturer's estimated discount, savings of $1 million annually could be realized by purchasing in bulk from manufacturers rather than dealers. Most other provincial governments and large fleet operators acquire directly from manufacturers. The Ministry has recognized the benefits of bulk purchasing from manufacturers and is in the process of changing its current practice.

STAFFING

Patrol Yard Amalgamations

Most maintenance activities are delivered by patrol yards dispersed across the province. A patrol yard is typically staffed by a minimum of five workers who are responsible for performing the necessary winter and general maintenance on all roads, roadsides and bridges for about 100 km of highway.

When we last audited highway maintenance in 1985, there were 259 patrol yards. At that time we felt that certain of these patrol yards could be amalgamated without a deterioration in service levels and that this would result in savings to the Ministry. By 1992 the number of patrol yards had been reduced to 239 through such amalgamations.

We again reviewed this area to see whether there was any apparent overstaffing at the patrol yard level which could be remedied through further patrol yard amalgamations.

We noted that recent patrol amalgamation studies undertaken by the Southwest Region and Kingston District concluded that both the Region and District were overstaffed relative to the number of staff needed to carry out the required maintenance work. Kingston District plans to reduce the number of patrols from 21 to 9 while the Southwest Region plans to reduce the number of patrols from 55 to 42. Both initiatives are expected to produce annual savings of over $3.2 million.

Applying the criteria from these studies to the province as a whole indicates potential savings in the range of $7 to $9 million annually.

One-Shift Schedules

Scheduling staff for shifts is the responsibility of the regions and districts. During the winter season almost all 18 districts have two-shift schedules for snow plough crews. During their shifts, plough crews wait at the patrol yard for the possibility of snow. Employees are paid regardless of whether they are called out to plough.

We noted, however, that 14 of the 239 patrols are currently on a one-shift system with the shift time overlapping peak traffic

periods. These patrols are located in warmer districts such as Toronto, Burlington and Port Hope. While reaction time to a snowfall may be slower using a one-shift system, the use of private contractors, or employees who could be called in on an "as needed" basis can prove more economical.

We analyzed the warmer districts to determine if there was further potential for one-shift patrols. The districts most conducive to a one-shift system are those with the least likelihood of constant, heavy snowfall which decreases their chances of being caught understaffed.

While the average annual snowfall in Ontario is 200 cm, our analysis over three years of average snowfall for six warmer weather districts revealed that their average was 104 cm, with one district as low as 65 cm. While we acknowledge there are other variables besides snow that may effect the practicality of a one-shift system, we estimate that the Ministry can save $3 million in salary costs by selectively converting some of these districts and patrols to a one-shift system.

Similar US jurisdictions (New York State and Minnesota) have been under a one-shift system for years.

ANALYSIS OF PRIVATIZED OPERATIONS

The Ministry makes extensive use of the private sector to deliver its services. In the 1990/91 fiscal year approximately $52 million was spent on privatized work of which winter snow removal, sanding and salting operations accounted for a significant portion.

A 1974 Ministry directive outlined the criteria which should be considered in transferring services to the private sector. One key factor in privatization should be the realization of a reduction in the Ministry's operating expenditures.

Our review of privatized operations revealed that even though the districts surveyed indicated cost savings were a major benefit of privatization, no formal cost/benefit analyses were performed verifying that cost savings resulted from privatizing activities.

Districts and regions should be required to analyze more formally the effects of privatization so that improved decisions can be made on whether to transfer activities or services to the private sector.

RESPONSE

The Deputy Minister of Transportation responded to our report on September 15:

Fiscal realities, together with the aging highway system, challenge the Ministry's ability to meet maintenance needs, especially routine activities.

Most current maintenance expenditures, such as zone painting, patching potholes, grading shoulders, replacing signs and guide rail repairs, are in support of safety-related objectives. Maintenance activities like ditch and culvert clean outs, and washing structures, are preventive maintenance activities in support of preserving the roadway as a capital asset.

In 1989, the Ministry established a special Preservation Management Capital Fund that was intended to restore certain elements of the roadway to acceptable standards. Approximately $19.1 million was spent in 1991/92 on crack sealing, selective paving, gravel shoulder restoration, surface treatment, etc. type activities. In addition, the base capital program included substantial expendi-

tures on structural steel coating and major bridge repairs—activities that were historically funded from the Highway Maintenance Operations budget prior to April, 1989.

PREVENTIVE MAINTENANCE

PLANNING

A detailed assessment has recently been completed of future annual maintenance needs for each district, and this data will be used as one of the major inputs in equitably allocating available operating funds in fiscal year 1993/94. It should be noted that the historical annual maintenance budget falls well short of the annual maintenance needs. It is proposed to update the needs inventory on a two- to three-year cycle.

3.18

PREVENTIVE MAINTENANCE ON ROADS

While it is generally acknowledged that timely maintenance of drainage facilities helps to preserve the capital asset, a higher priority must be given to safety related activities such as zone striping, traffic signal repairs, etc. In the future, the use of more capital funds for drainage improvements will be pursued.

The pavement rating conditions of highways reflect the level of capital investment in their rehabilitation, more so than does routine maintenance. It is acknowledged that over the past 10 to 15 years the percentage of highways in the good to very good category has declined; this is in part due to the natural aging of the highway infrastructure built in the 1950s and 1960s.

During the same period, it should be noted that the number of substandard pavement sections has remained relatively stable, indicating that the right priorities are being addressed with available capital funds.

Current program initiatives include the fast tracking of relatively long (25 to 35 km) paving projects to reduce the number of poor and substandard sections of highway.

PREVENTIVE MAINTENANCE ON BRIDGES

The allocation of operating funds to routine preventive maintenance of bridges has declined as noted because of the higher priority allocated to safety related maintenance operations. The long-term effects of these decisions are difficult to measure or predict because of the long average life (50 years) of most structures. As major growth in the Ontario system occurred in the 1950s and 1960s, a large number of the bridges are increasingly in need of rehabilitation.

This has resulted in significant increases in capital expenditures on bridge rehabilitation over the past five years. Between 1987 and 1991, annual capital investments in structure rehabilitation have increased from $27 million to $45 million and over the next three years will continue between $45 million and $50 million per year. It should also be noted that during the same period the percentage of defective bridges on the King's Highway System declined from 27.7 per cent to 24.7 per cent.

ACQUISITION AND UTILIZATION OF RESOURCES

FLEET MANAGEMENT

Utilization of Equipment

Revised administrative procedures have been put in place which require each District Equipment Supervisor to identify and justify the need for any new/replacement equipment before tenders are prepared.

The lower than average utilization of certain classes of equipment results, in part, from the ongoing downsizing of operations carried out by Ministry staff. Each year the equipment complement of each district is reviewed with Regional/Head Office staff to determine replacement needs that reflect current and future business requirements. The system will be upgraded to provide for improved control and monitoring of vehicle utility.

Acquisition of Vehicles

Management Board has recently approved a policy change that would permit the Ministry to purchase vehicles directly from manufacturers rather than through local dealers, resulting in an estimated annual savings of $0.5 to $1.0 million.

STAFFING

Patrol Yard Amalgamations

In 1966/67 the Ministry operated 363 patrols province-wide. By 1991, this number had been reduced to 239 with a corresponding reduction in both classified and unclassified staff and equipment. The opportunity to gain the benefits identified in the studies carried out in Eastern and Southwestern Regions will be explored in the remaining Regions.

One-Shift Schedules

A number of districts are revising their winter maintenance coverage to a one-shift system on lower volume roads. This places more reliance on call-back of off-duty staff. Consequently, potential savings will be offset by increased overtime payments to Ministry patrol staff.

ANALYSIS OF PRIVATIZED OPERATORS

It is agreed that appropriate cost/benefit analysis of selected privatized operations such as garage repairs, winter ploughing, sanding and salting contracts, be carried out to ensure that the government is receiving good value for services, compared with the costs of performing these activities with ministry staff. These studies will be scheduled for completion in the 1993/94 fiscal year.

CHAPTER FOUR:

Public Accounts of the Province

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PREPARATION OF THE PUBLIC ACCOUNTS

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Treasurer as required by the *Ministry of Treasury and Economics Act*. The three volumes of the *Public Accounts* are delivered to the Lieutenant-Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year.

Volume 1 of the *Public Accounts* contains the financial statements of the Province and other statements and schedules. The Provincial Auditor audits and expresses an opinion on the financial statements, and scrutinizes the other information in Volume 1.

Volume 2 includes reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

- in which the Province has an investment;
- which have borrowed from the Province; or
- which have borrowed from others with a guarantee by the Province.

Volume 2 also contains the audited financial statements of certain significant operational agencies funded in whole or in part by revenues generated by their operations.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations. The Provincial Auditor scrutinizes the information in Volume 3 and includes any relevant comments in this Chapter.

FINANCIAL STATEMENTS OF THE PROVINCE

The audited financial statements and accompanying notes contained in Volume 1 of the *Public Accounts* summarize the financial activities of the Province for the fiscal year. They also report on the significant aspects of the Province's financial position at the close of the fiscal year.

The Summary of Significant Accounting Policies is described in Note 1 to the financial statements, and appears on page 1-8 of Volume 1 of the 1991/92 *Public Accounts*. The Summary provides the reader with a clear understanding of the principles and methods used to present the financial information in the statements.

The Province's financial statements are prepared using the concept of a Consolidated Revenue Fund, and are designed to provide an accounting of the financial resources appropriated by the Legislature. Accordingly, the financial transactions of Government

ministries are set out as Consolidated Revenue Fund cash inflows and outflows. In the case of cash outflows, this basis is modified to allow an additional 30 days to pay for obligations incurred during the fiscal year just ended. Cash inflows, however, are closed at March 31. Under the Consolidated Revenue Fund concept, the activities of Crown corporations, boards and commissions are reported only to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund.

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Under the provisions of the *Audit Act*, the Provincial Auditor is required to examine the accounts and records of the Province, and to report annually to the Legislative Assembly on the Province's financial statements. The report is to state whether, in the opinion of the Provincial Auditor, the statements present fairly the financial position, results of operations and changes in the Province's financial position, and are in accordance with the stated accounting policies, consistently applied. Where there are qualifications of the audit opinion, the reservations are to be explained in the report.

In his capacity to act in the place of the Provincial Auditor, the Assistant Provincial Auditor has expressed an opinion without reservation on the Province's financial statements. The report is presented on page 1-13 of Volume 1 of the 1991/92 *Public Accounts*.

ONTARIO'S DEFICIT

In our last three Annual Reports, we provided an update on various factors associated with government deficits in general, and made specific comments related to Ontario's deficit.

A government's deficit represents its excess of expenditure over revenue in any given year. A government's accumulated deficit equals the total of annual deficits, less any annual surpluses.

1992 DEFICIT

Ontario's 1991 Budget, tabled on April 29, 1991, forecast a deficit of $9.7 billion for the year ended March 31, 1992. The actual deficit was $10.9 billion, or $1.2 billion greater than the forecast.

The largest factor contributing to this $1.2 billion shortfall was the larger than anticipated effect of the continuing recession. As a result, personal income tax revenue was approximately $2.2 billion less than expected, and retail sales taxes were short by about $.5 billion. Even after considering the effect of an $810 million increase in revenue from the federal government under Established Programs Financing, the net effect of these two taxation revenue shortfalls was $1.9 billion.

Recognizing these revenue shortfalls, as well as greatly increased social assistance payments, the Government instituted a series of expenditure reduction measures during the year. These measures, when combined with other decreases in expenditure, more than offset social assistance and other expenditure increases, with the result that total expenditures for the year ended March 31, 1992 were $600 million less than the forecast.

Pages 59 to 65 of the 1992 Budget, tabled in the Legislature on April 30, 1992 provide a full description of all variances from budget to actual for the year ended March 31, 1992.

FINANCIAL IMPLICATIONS OF DEBT

When Government expenditures continue to exceed revenue, cash balances are drawn down and borrowing is required. All such borrowing constitutes a government's debt.

The following table summarizes recent Ontario experience.

	1991/92	1990/91
	($billions)	
Deficit	10.9	3.0
Accumulated Deficit	49.3	38.4
Debt for Provincial Purposes	53.1	42.3

In our last three Annual Reports, we have referred to the effects of growing deficits and debt, and the need for governments to carefully monitor and control such situations.

One section of the publication *Ontario Fiscal Outlook*, released by the Treasurer in January 1992, was devoted to a discussion of the implications of a higher debt load, assuming current spending and revenue trends were to continue unchanged. The following were presented as some of the problems presented by a larger debt load:

- Interest on public debt will rise as a share of revenues, thus reducing the flexibility to address social needs or to deal with economic issues such as the recession;
- Ontario must compete in the public financial markets with other provinces and countries that are also facing financial pressures. The resulting increased level of competition for available funds causes the cost of borrowing to go up; and
- The cost of borrowing may also increase if the Province's credit rating goes down. Many large lenders, such as pension funds and life insurance companies, restrict a large part of their lending to the highest credit ratings. Factors affecting the stability of Ontario's credit rating include the state of the economy, debt in relation to growth in the economy as measured by the gross domestic product, public debt interest relative to revenue, and responsible fiscal management.

On the plus side, the publication notes that, in comparison to the size of the economy, Ontario's debt is lower than that of most other provinces and the federal government. Additionally, Ontario's credit rating (double A) remains high, comparing well with those of other provinces and most US states.

ADVANCE PAYMENT OF EXPENDITURE - ITS EFFECT ON THE DEFICIT

In each of our last three Annual Reports, we have commented on the practice of paying expenditures in advance and on the resulting effect on the provincial deficit. The practice continued this year, although its magnitude was not as significant as in the past.

Unfunded liability payments to the Ontario Teachers' Pension Fund ($52 million), that were scheduled to be paid in the 1992/93 fiscal year, were preflowed and charged to

expenditure in the 1991/92 fiscal year. The reported deficit for the year ended March 31, 1992 was thereby increased by this amount.

As stated in previous reports, the practice of preflowing expenditures can and has been viewed as an attempt to "manage" the deficit, thus raising doubts concerning the integrity of the accounting process. We again recommend that the Government treat preflows as advances to be reported as financial assets at the fiscal year end. These assets could then be appropriately converted to and reported as expenditure in the succeeding year.

THE CONSOLIDATED REVENUE FUND - AUTHORIZED AND ACTUAL PAYMENTS

AUTHORIZED PAYMENTS

All public monies received and expenditures made are channelled through a single fund, the Consolidated Revenue Fund. Expenditures from the Fund are of two major types: those pursuant to Estimates including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Payments from a particular Voted Appropriation may be increased by Treasury Board Orders, provided the payments are offset by limiting the expenditures to be made under any other Voted Appropriation. Another type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of these four expenditure approval mechanisms is more fully explained as follows.

Voted Appropriations

Prior to the passage of the *Supply Act*, the Legislature authorizes payments out of the Consolidated Revenue Fund by means of motions of interim supply. For the 1991/92 fiscal year, the time periods covered by the motions of interim supply, and the dates the motions were agreed to by the Legislature, were as follows:

- April 1, 1991 to April 30, 1991 - passed December 20, 1990
- May 1, 1991 to July 31, 1991 - passed April 24, 1991
- August 1, 1991 to October 31, 1991 - passed June 27, 1991
- November 1, 1991 to December 31, 1991 - passed October 30, 1991

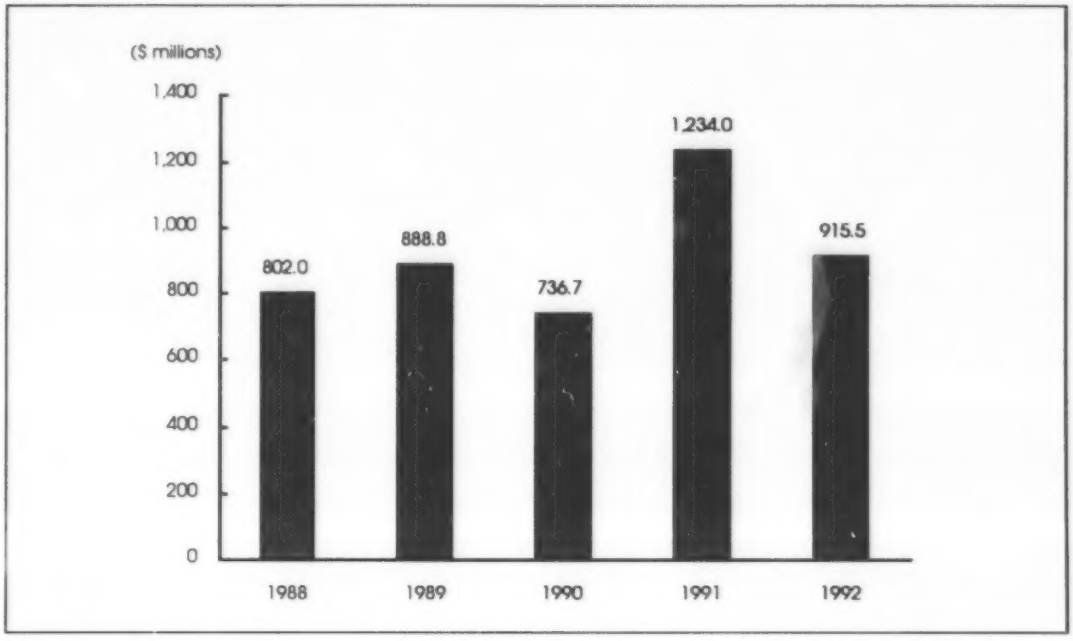
When the Legislature approves the *Supply Act*, the annual estimated expenditures (Estimates and Supplementary Estimates) are formalized as Voted Appropriations. The *Supply Act*, 1991, pertaining to the fiscal year ended March 31, 1992, received Royal Assent on December 19, 1991.

Treasury Board Orders

Section 8 of the *Treasury Board Act* allows the Board to make an order authorizing payments to supplement the amount of any appropriation which is insufficient to carry out the purpose for which the appropriation was made. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

Section 5 of the *Management Board of Cabinet Act* contained a provision similar to section 8 above but was repealed effective June 27, 1991 when the *Treasury Board Act* came into force.

The following chart is a summary of the Board Orders issued for the past five years:



Board Orders for the 1991/92 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
July 1991 to February 1992	30	249,697,300
March 1992	25	389,483,300
April 1992	19	276,269,534
	74	915,450,134

In accordance with a Standing Order of the Legislative Assembly, the preceding Board Orders have been printed in *The Ontario Gazette*, together with explanatory information.

Special Warrants

As previously indicated, motions of interim supply adopted by the Legislature are the usual means of authorizing payments from the Consolidated Revenue Fund prior to the passage of the *Supply Act*. However, when the Legislature is not in session, section 7 of the *Treasury Board Act* provides for the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature, and the amount is to be

paid from the Consolidated Revenue Fund as specified in the Special Warrant. Special Warrants are authorized by orders in council approved by the Lieutenant-Governor on the recommendation of the Government.

Section 4 of the *Management Board of Cabinet Act* contained a provision similar to section 7 above but was repealed effective June 27, 1991 when the *Treasury Board Act* came into force.

No Special Warrants were issued during the 1991/92 fiscal year.

Statutory Appropriations

Payments out of the Consolidated Revenue Fund relating to Statutory Appropriations represent those where the specific authority to spend is expressly contained in a statute of the Legislature. No further specific approval is required, as the spending authority continues indefinitely until the statute is amended or repealed.

For the information of the Legislature, the Government notes in the annual Estimates the amount expected to be spent in accordance with the authority given in the various statutes. However, if spending on Statutory Appropriations exceeds the expected amount, no Treasury Board Order is required.

COMPARISON OF AUTHORIZED AND ACTUAL EXPENDITURES

The comparison for the fiscal year ended March 31, 1992 is as follows:

	Authorized ($ millions)	Actual ($ millions)
Voted Appropriations		
Estimates	47,555	45,854
Treasury Board Orders	915	764
	48,470	46,618
Statutory Appropriations*	5,253	5,886
	53,723	52,504

* Authorized represents expected expenditure per the Estimates less estimated interest income of $460 million in the Budget; Actual represents total expenditure net of $597 million interest income.

A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit 6 of this Report.

WRITE-OFF OF UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant-Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the *Public Accounts*.

1991/92 WRITE-OFFS

A total of $78.3 million was written off in the 1991/92 fiscal year (1990/91 $65.5 million), as indicated on page 3-17 of Volume 1 of the *Public Accounts*. The major portion of these write-offs related to the following:

- $27.5 million for unpaid taxes relating to the *Retail Sales Tax Act* and the *Corporations Tax Act*;
- $16.9 million pertaining to uncollectable loans made under the *Development Corporations Act* and by the former Board of Industrial Leadership and Development (BILD);
- $7.4 million in uncollectable fines, costs and fees owed to Provincial Courts;
- $5.6 million with respect to overpayments under the *Family Benefits Act*;
- $5.1 million related to the Ontario Farm Adjustment Assistance Program whereby the balances of guarantees were paid to banks after applying any proceeds of liquidation of farmers' assets;
- $4.7 million in uncollectable claims and judgements pertaining to the Motor Vehicle Accident Claims Fund; and
- $3.1 million for uncollectable loans to students under various student support programs.

4

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of monies from one item of the estimates of the Office of the Assembly to another item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the *Annual Report*.

In respect of the 1991/92 expenditure estimates, no transfers were made within Vote 201 of the Office of the Assembly.

CHAPTER FIVE:

Office of the Provincial Auditor

INDEPENDENCE OF THE PROVINCIAL AUDITOR

The independence of the Provincial Auditor has been ensured by the provisions of a separate legislative act, the *Audit Act*. The Provincial Auditor is appointed an officer of the Legislative Assembly by the Lieutenant-Governor in Council on the address of the Assembly after consultation with the Chairman of the Standing Committee on Public Accounts. Thus, the Provincial Auditor is accountable to the public through their elected representatives.

Additionally, the Provincial Auditor and the Office of the Provincial Auditor are independent of the Government and its administration. Neither the Provincial Auditor, nor the employees of the Office of the Provincial Auditor, are employees of the Government.

For Office expenditures and staffing the Provincial Auditor is accountable to the Board of Internal Economy, an all-party legislative committee independent of the Government's administrative process. As required by the *Audit Act* the Office's expenditures have been audited by a firm of chartered accountants appointed by the Board. The audited statement of expenditure for the 1991/92 fiscal year has been submitted to the Board and tabled in the Assembly.

OFFICE GOALS

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- to assist Deputy Ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits; by presenting individual audit reports to the respective Deputy Ministers/agency heads; and by presenting an Annual Report to the Legislature.

AUDIT RESPONSIBILITIES

PRIMARY RESPONSIBILITY

The primary responsibility of the Provincial Auditor is to audit the administration of Government programs and activities, as carried out by ministries and agencies of the Crown under Government policies.

Audit responsibilities, however, do not extend to Government policy matters. The Office audits neither Government policies nor information contained in Cabinet documents used in policy deliberations or decisions. The Government is held accountable for policy matters by the Legislature, which continually monitors and challenges Government policies and programs through questions in the House and reviews of legislation and expenditure estimates.

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Ministries

The Provincial Auditor, per Section 9(1) of the *Audit Act*, is required to audit Government ministries. While value for money audits are the primary focus, the Office also carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the Province's financial statements. Exhibit 2 lists the ministry audits covered by this Report.

Agencies of the Crown and Crown Controlled Corporations

The Provincial Auditor, per section 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 3, part (i), lists the agencies audited for the 1991/92 fiscal year. Public accounting firms are currently contracted by our Office to audit the financial statements of several of these agencies on our behalf.

Exhibit 3, part (ii), and Exhibit 4 list the agencies of the Crown and Crown controlled corporations audited by public accounting firms for the 1991/92 fiscal year. Section 9(2) of the *Audit Act* requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under section 9(3) of the Act, public accounting firms auditing Crown controlled corporations must deliver to the Provincial Auditor a copy of their completed audited financial statements, together with a copy of their findings and recommendations to management (management letter).

ADDITIONAL AUDIT RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may be directed by the Standing Committee on Public Accounts to examine any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

The Special Assignments section of this chapter indicates the status of recent assignments requested under these sections.

AUDIT ACTIVITIES

TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected transfer payment recipients are conducted under Section 13 of the *Audit Act*. A brief description of each of these categories follows.

Value for Money

Section 12 of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy or efficiency, or where appropriate procedures were not taken to measure the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities. The Office does not have a mandate under the *Audit Act* to conduct value for money audits of transfer payment recipients, but may assess the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well managed.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by management.

Compliance

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work in conjunction with our value for money and attest auditing.

Attest

Attest (financial) audits are designed to attest to (express a professional opinion on) a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with the entity's stated accounting policies. The Office conducts attest audits on the financial statements of the Province and various Crown agencies on an annual basis.

Inspection Audits of Transfer Payment Recipients

Transfer payments, comprising over 70 per cent of Government expenditures, are transfers of money from the Province to an individual, an organization or another government.

Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. In keeping with the trend towards greater Government accountability, the Office in recent years has expanded inspection audit activity specifically to include the major recipients of transfer payments. The Office has undertaken special reviews of community colleges, universities, hospitals and school boards.

SCHEDULING OF AUDIT ACTIVITIES

Ministry Audits

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All major ministry programs (annual expenditures exceeding $50 million) are considered for audit over a five-year period. The cyclical audits are primarily value for money oriented and report specifically on the administration of programs and activities by management. Ministry expenditure systems that are processed centrally are similarly considered for audit on a cross-ministry basis every five years. Additionally, smaller programs and activities, particularly information systems, may also be audited.

The frequency of the cyclical audits depends on such factors as total ministry expenditures, impact of a program on the public, diversity and complexity of operations, results of previous cyclical audits, and audit activity by the internal audit branch within the relevant ministry. As well, the Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister. The Office may also carry out internally generated special assignments.

Agency Audits

Agencies of the Crown are audited annually as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

Internal Audits

The amount of work done by ministry and agency internal auditors and the breadth of its scope can have a major impact on the timing, frequency and extent of our audit activity. By having access to internal audit work plans, working papers and reports, the Office is able to avoid duplication of effort by relying, to the extent possible, on internal audit activities.

REPORTING ACTIVITIES

MINISTRY AND AGENCY AUDITS

The Office prepares a draft report as each audit is completed. The draft is discussed with senior ministry/agency officials and revised, if necessary, to reflect the results of the discussion. We issue a final report to the Minister and Deputy Minister or, for agencies, to the Board of Directors and the Minister of the associated ministry. Also, we send a copy of all final reports to the Secretary, Management Board of Cabinet.

Neither individual ministry or agency reports, nor reports on special assignments for a Minister, are submitted to the Legislative Assembly or to the Standing Committee on Public Accounts. A similar situation exists for reports submitted by the external auditors of agencies or Crown controlled corporations to management.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted since our last Report.

SPECIAL ASSIGNMENTS

Under Sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a Minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment. Reports on special assignments for the Legislative Assembly, or the Standing Committee on Public Accounts, become public documents when they are tabled. Disclosure of reports on special assignments for a Minister has been described in the immediately preceding section on ministry and agency audits.

During the period of audit activity (September 1991 to August 1992) covered by this Report, the Office was involved with five special assignments:

- The Standing Committee on Public Accounts requested the Provincial Auditor to conduct an audit of the expenditures of Deputy Ministers and report on the guidelines that Deputy Ministers are required to follow with respect to the use of these expenditures. The audit would also show the actual amount that each Deputy Minister was granted for the purpose of expenses and would include any suggestions the Provincial Auditor might have which might be implemented to improve the accountability of the use of these expenditures. We reported to the Committee in November 1991.
- As The Ontario Educational Communications Authority (TVOntario) had been the subject of much adverse commentary and allegation concerning senior management and the administration of the Authority's resources, the Secretary of Cabinet requested our Office to investigate the many issues relating to fiscal responsibility and any other matters the Office considered relevant. This request was confirmed in discussion with the Minister of Culture and Communications. We reported to the Secretary in September 1991.
- The Standing Committee on Public Accounts requested the Provincial Auditor to perform a follow-up audit, with full access to all the financial and related records, of The Toronto General Division of The Toronto Hospital. The audit was to address computer and construction/renovation expenditures and other concerns. We expect to report to the Committee in October 1992.
- Additionally, the Committee requested the Provincial Auditor to undertake an audit of the Office of the Registrar General. The processing of requests from the public and Office staffing were to be audited. We expect to report to the Committee in the latter part of the year.
- The Committee also requested the Office to conduct a value for money audit of the Office of the Ombudsman within the 1992/93 fiscal year.

OFFICE ORGANIZATION AND PERSONNEL

An overview of the Office's organization as at August 31, 1992 is as follows. This organization has remained essentially unchanged during the year.

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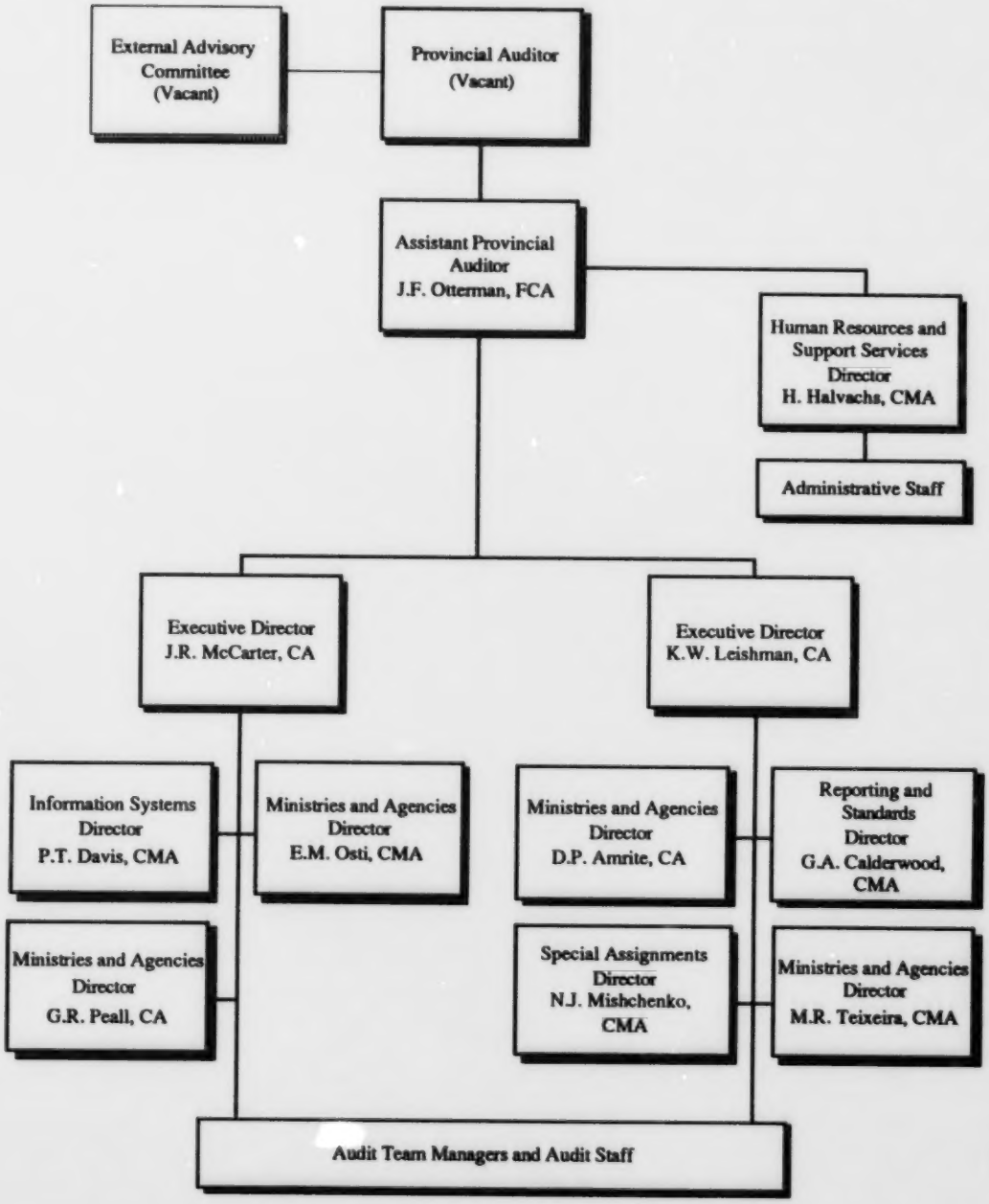
External Advisory Committee (Vacant)
Provincial Auditor (Vacant)
Assistant Provincial Auditor J.F. Otterman, FCA
Human Resources and Support Services Director H. Halvachs, CMA
Administrative Staff
Executive Director J.R. McCarter, CA
Executive Director K.W. Leishman, CA
Information Systems Director P.T. Davis, CMA
Ministries and Agencies Director E.M. Osti, CMA
Ministries and Agencies Director D.P. Amrite, CA
Reporting and Standards Director G.A. Calderwood, CMA
Ministries and Agencies Director G.R. Peall, CA
Special Assignments Director N.J. Mishchenko, CMA
Ministries and Agencies Director M.R. Teixeira, CMA
Audit Team Managers and Audit Staff

Ministries and Agencies Audit Branches

These four branches audit ministries on a cyclical basis and agencies of the Crown annually.

Reporting and Standards Branch

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

Information Systems Branch

This branch's main responsibilities involve the auditing of information systems and the provision of technical support and training to other branches.

Special Assignments Branch

This branch's main responsibilities are Office-initiated audits and reviews of Government-wide issues and systems, and special assignments requested by the Standing Committee on Public Accounts and by Ministers.

Human Resources and Support Services

This branch provides human resources, budgeting, financial, accounting, administrative and accommodation services in support of audit operations.

OFFICE EXPENDITURE

The following is the 1992 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor
Statement of Expenditure
year ended March 31, 1992

	1992		1991	
	Actual $	Estimates $	Actual $	Estimates $
Salaries and wages	5,193,635	5,403,600	4,708,966	5,167,000
Employee benefits	998,038	849,200	963,510	667,000
Transportation and communication	195,528	226,100	255,910	277,000
Services	1,392,156	1,392,400	1,143,349	1,360,500
Supplies and equipment	64,327	104,500	356,644	134,500
Transfer payment - Canadian Comprehensive Auditing Foundation	50,000	50,000	50,000	50,000
	7,893,684	8,025,800	7,478,379	7,656,000
The Audit Act	115,936	123,000	122,095	123,000
	8,009,620	**8,148,800**	**7,600,474**	**7,779,000**

Notes:

1. *Accounting Policy*

   The statement of expenditure has been prepared using the cash basis of accounting followed by the Province of Ontario with respect to the Public Accounts. The cash basis of accounting is modified to allow for an additional 30 days to pay for debts incurred during the fiscal year just ended.

2. *Estimates*

   The estimates shown above are those voted and approved, including supplementary estimates where applicable.

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1992. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1992 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario
July 15, 1992

ALLEN & MILES
CHARTERED ACCOUNTANTS

CANADIAN CONFERENCE OF LEGISLATIVE AUDITORS

The twentieth annual meeting of the Canadian Conference of Legislative Auditors was held in Fredericton from July 5 to 7, 1992. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Assistant Provincial Auditor, covered such topics as:

- government management matters;
- challenges in information technology;
- balancing control and employee empowerment; and
- update and discussion of Public Sector Accounting and Auditing Committee activities.

The twenty-first Canadian Conference of Legislative Auditors will be held in Toronto in 1993 with the Provincial Auditor acting as host and conference chair.

ACKNOWLEDGEMENTS

STAFF

In closing this chapter, I would like to recognize the dedicated efforts and support of our audit and administrative staff. They have carried out their responsibilities in a professional and competent manner with service to the Legislature and a desire for improving public administration at the forefront. Their contribution is especially noteworthy considering the wide-ranging scope of the audit tasks performed. I would also like to acknowledge the expressions of appreciation received from our auditees regarding the performance of our staff and the benefits derived from their audit work.

The following staff contributed to the accomplishment of our responsibilities during the audit year ending August 31, 1992:

Walter Allan
Cindy Allen
Paul Amodeo
Dinkar Amrite
Bob Anger
Alan Athalde
Cynthia Ayson
Enzo Baldan
Jennie Bangay
David Bell
Walter Bordne
Paula Butler
Gord Calderwood
Fabiene Cazes
Danny Chang
Andrew Cheung
Rudolph Chiu
Peter Chong
Sally Clarke
Dayna Crossley
Patrick Cupido
Andrew Dagys
Peter Davis
Howard Davy
Elizabeth Derco
Vito Di Taranto
Wayne Doiron
Dennis Endrizzi
Linda Everingham
Patti Everingham
Gerard Fitzmaurice
Laura Floyd
Arun Garg
Corrine Gregor
Mariana Grivicic
Hildegard Halvachs
Iman Hamed
Benji Han
Mark Hancock
Naomi Herberg
Jacqueline Ho
Kenn Hyslop
Glenn Inouye
Ralph Iorio
Terry Jeffs
Darren Jones
Dean Jones
John Landerkin
Syd Latchana
Christine Leach
David Lee
Ken Leishman
Margaret Lem
Stephen Leonard
Jeff Loncke
David Luk
Sandra Lutz
Rick MacNeil
Rosemarie Malott
Terry Marescaux
Heather Margerison
Susan Maskens
Steve Mazza
Vince Mazzone
Jim McArthur
Jim McCarter
John McDowell
Nick Mishchenko
Bill Murphy
Brian Nancekivell
Diane Newby
Alan Orr
Ezio Osti
Gary Peall
Bill Pelow
Donald Pettipas
Nadine Pietrobon
Michael Radford
Gwen Radstake
Margaret Reid
Nancy Rhéaume
Diane Rochette
Fraser Rogers
Amit Roy
Jane Schope
John Sciarra
Lee-Ann Selluski
Kathryn Shantora
Thomson Shiu
Kim Simpson
Catherine Steele
Glenn Stencell
Malcolm Stokes
Joanne Talbi
Jessica Taylor
Mike Teixeira
Tony Tersigni
Sharon Tippett
Ann Tortolano
Peter Tsui
Christopher Verney
Brian Wanchuk
Susan Webb
Janet Wilson
Larry Yarmolinsky
Denise Young
Haseena Yussuff

PROVINCIAL AUDITOR RETIREMENT

On December 31, 1991, the Provincial Auditor, Douglas F. Archer, FCA, retired from the Office and the Public Service of Ontario.

Doug Archer was employed for almost 26 years with the Public Service and served 20 of those years as Director, Assistant Provincial Auditor and Provincial Auditor in the Office of the Provincial Auditor for the Province. The contribution he made to the success of the Office and its programs of service to the Legislative Assembly and the public was substantial, and he will be greatly missed. Under his leadership, the amendments to the *Audit Act* passed in 1978 which provided for the expanded audit mandate now commonly known as 'value for money auditing' became operationalized and regularized in the Office. Today, approximately 75 per cent of our audit resources are directed to this activity. This accomplishment, in my view, is all the more noteworthy when one considers the resources available to the Office. In 1982, the year of his appointment, the Office budget funded 103 staff positions. Some ten years later, the 1992/93 budget funded 101 positions.

During his tenure, the full mandate provided under the *Audit Act* was exercised. By performing inspection audits of the major transfer payment recipients—such as colleges, universities, hospitals and school boards—the legislators, ministries and transfer payment

recipients became aware that vastly improved methods were needed to demonstrate accountability for the resources transferred.

EXTERNAL ADVISORY COMMITTEE

Upon the retirement of the Provincial Auditor, the terms of the members of the Advisory Committee also ended.

On behalf of all the staff and Doug Archer, I wish to publicly acknowledge in this Report the contribution that these people made and thank them for the assurance that they provided to the Office from their informed and wise counsel. Many thanks to Rendall Dick, Patrick Reid, Jack Stokes, George Taylor and Adam Zimmerman for sharing their time, knowledge, and insights with us.

CHAPTER SIX:

The Standing Committee on Public Accounts

6

APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chair whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on November 28, 1990, soon after the commencement of the first session of the Thirty-fifth Parliament, and was continued for the duration of the session. A new Committee was appointed on April 14, 1992, soon after the commencement of the second session. The current membership of the Committee is as follows:

Remo Mancini, Chair, Liberal
Joseph Cordiano, Vice-Chair, Liberal
Robert Callahan, Liberal
Donald Cousens, Progressive Conservative
Noel Duignan, New Democrat
Robert Frankford, New Democrat
Bernard Grandmaître, Liberal
Pat Hayes, New Democrat
Paul Johnson, New Democrat
Lawrence O'Connor, New Democrat
Anthony Perruzza, New Democrat
David Tilson, Progressive Conservative

ROLE OF THE COMMITTEE

The role of the Committee, on behalf of the Assembly and ultimately the public, is to hold the Cabinet and the Government bureaucracy accountable for their administration.

In order to fulfil this role, the Committee is empowered to review and report to the Assembly its observations, opinions and recommendations on selected matters in the Report of the Provincial Auditor and the Public Accounts. These documents are referred to the Committee as soon as they are tabled.

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of operations; the effectiveness of programs in

achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and, the reliability and appropriateness of information in the Public Accounts.

PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of Government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

COMMITTEE PROCEDURES AND OPERATIONS

GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, a Deputy Minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, Ministers rarely attend. When the Committee is reviewing Crown agencies, the Chief Executive Officer and, at times, the Chair of the Board attend the meetings. They are usually accompanied by senior agency staff.

MEETINGS HELD

From September 1991 to August 1992 the Committee met regularly on its designated meeting day while the Legislature was sitting and also for a four-day period during the recess between the first and second sessions of the Thirty-fifth Parliament. The Committee spent most of its time on the following:

- Continuing its review of OHIP billings, with particular emphasis on increased billings from drug and alcohol treatment centres located in the United States. Selected treatment centres in the United States and Ontario were visited by the Committee.
- Reviewing the results of the Provincial Auditor's inspection audit of The Toronto General Division of The Toronto Hospital.
- Organizing the Committee's agenda.
- Considering the appointment of the Provincial Auditor as referred to the Committee by the Assembly.

MOTIONS PASSED AT MEETINGS

The Committee, pursuant to section 17 of the *Audit Act*, passed motions in May and June 1992 requesting the Provincial Auditor to perform special audits and report to the Committee on the following:

- Follow-up audit of The Toronto General Division of The Toronto Hospital;
- The Office of the Ombudsman; and

- The Office of the Registrar General.

COMMITTEE PROCEDURES

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- in-depth briefings and preparation;
- more frequent reports to the Legislature;
- increased follow-up of Committee recommendations; and
- site visits to discuss concerns and obtain first-hand knowledge of everyday working conditions in the field.

6 REPORTS OF THE COMMITTEE

GENERAL

As noted above, the Committee has adopted the practice of more frequent reporting to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

The Committee also issues additional reports on an annual or biennial basis which include summaries of previously issued reports. All reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

COMPLETED REPORTS

In June 1992 the Committee tabled two reports in the Legislature as follows:

- 1990-1991 biennial report;
- Report on OHIP Payments to Out-of-Province Drug and Alcohol Treatment Facilities.

The Clerk of the Committee is responsible for following up the actions taken by ministries/agencies on the Committee's recommendations. Our Office liaises with the Clerk to ascertain the status of the recommendations, and would bring any significant matters arising therefrom to the attention of the Legislature in our Annual Reports.

STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE *AUDIT ACT*

The Committee had recommended that the *Audit Act* be amended to provide the Provincial Auditor with the discretionary authority to perform value for money audits of any government agency and all transfer payment recipients.

As noted in our 1991 Report, government officials were in the process of reviewing the Provincial Auditor's draft amendments to the *Audit Act*. As part of this review, all ministries were asked to comment on the proposed revisions. Feedback received from the various ministries and some major transfer payment recipients has been discussed with our Office.

In preparing comments on the proposed revisions, some of the ministries consulted with their major transfer payment recipients as to the impact of the proposed legislation. A number of recipient organizations in turn wrote to the ministries with their concerns and

expressed their wish to participate in a consultation process. In this regard, work is now under way to develop a consultation plan for the transfer payment sector, accounting bodies and any other interested stakeholders. It is intended that the proposed consultation plan will be discussed with the Chair of the Public Accounts Committee to ensure the agreement of the Committee.

OTHER COMMITTEE ACTIVITIES

CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES

The fourteenth annual meeting of the Council was held in Fredericton from July 5 to 7, 1992. These annual meetings, normally attended by Public Accounts Committee members from all the provinces and the federal government, provide a forum for the exchange of ideas and information. The 1992 meeting was attended by the Chair of the Ontario Committee.

The annual meeting included: a round-table discussion of each delegation's Public Accounts Committee activities during the past year; sessions dealing with Crown corporation accountability, and accountability within the public service; and, a joint session with the Conference of Legislative Auditors.

EXHIBIT 1:

Cross-Ministry and Special Audits

CROSS-MINISTRY AUDITS

- Purchasing for Supplies and Equipment
  - Attorney General
  - Government Services
  - Health
  - Natural Resources
  - Solicitor General
  - Tourism and Recreation
  - Transportation
- Information Technology Security
  - Ministries and Schedule 1 Crown Agencies

SPECIAL AUDITS

Reviews for the Standing Committee on Public Accounts:

- Deputy Ministers' Expenditures

Other:

- Ontario Educational Communications Authority (TVOntario)
  - Issues Relating to Fiscal Responsibility and Other Matters

EXHIBIT 2:

Ministry and Crown Agency Audits

AGRICULTURE AND FOOD

- Market Revenue Program

CITIZENSHIP

- Citizenship Support Program

COLLEGES AND UNIVERSITIES

- Accountability Framework
- Follow-up Audits on:
  - Algonquin College
  - Centennial College
  - Georgian College

COMMUNITY AND SOCIAL SERVICES

- Family Benefits Assistance

CONSUMER AND COMMERCIAL RELATIONS

- Elevating Devices
- Real Property Registration

ENVIRONMENT

- Surface Water Quality Improvement

GOVERNMENT SERVICES

- Corporate Payroll System

HEALTH

- Queen Street Mental Health Centre
- Community Mental Health
- Health Registration System

HOUSING

- Microcomputer Network
- Non-Profit Housing

LIQUOR CONTROL BOARD OF ONTARIO

- Selling Prices, Transportation of Liquor, and Treasury Operations

NATURAL RESOURCES

- Timber Stumpage, Hunting and Fishing Licences, and Provincial Park Fees

PUBLIC TRUSTEE OF ONTARIO

- Administration of Trusts and Estates

REVENUE

- Employer Health Tax
- Property Assessment Operations

TRANSPORTATION

- Highway Maintenance Activities

EXHIBIT 3:

Agencies of the Crown

(I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

Agricultural Rehabilitation and Development Directorate of Ontario

Alcoholism and Drug Addiction Research Foundation

Algonquin Forestry Authority

Centennial Centre of Science and Technology

Commission on Election Finances

Crop Insurance Commission of Ontario

Eastern Ontario Development Corporation

Egg Fund Board (December 31)

Election Act, 1984 - Election Fees and Expenses

Environmental Compensation Corporation

Farm Income Stabilization Commission of Ontario

Fund for Milk and Cream Producers -

The Ontario Farm Products Marketing Commission

Grain Financial Protection Board

Innovation Ontario Corporation

Interim Gross Revenue Insurance Plan Program Account

Interim Waste Authority Ltd.

Legal Aid Fund, Law Society of Upper Canada

Liquor Control Board of Ontario

Livestock Financial Protection Board

Northern Ontario Development Corporation

Northern Ontario Heritage Fund Corporation

Office of the Assembly

Office of the Information and Privacy Commissioner

Office of the Official Guardian

Office of the Ombudsman

Ontario Aerospace Corporation

Ontario Agricultural Museum

Ontario Cancer Treatment and Research Foundation

Ontario Development Corporation

Ontario Educational Communications Authority

Ontario Film Development Corporation

Ontario Food Terminal Board

Ontario Heritage Foundation

Ontario Housing Corporation (December 31)

Ontario Industrial Training Institute

Ontario International Corporation

Ontario Junior Farmer Establishment Loan Corporation

Ontario Lottery Corporation

Ontario Municipal Improvement Corporation

Ontario Northland Transportation Commission (December 31)

Ontario Place Corporation

Ontario Racing Commission

Ontario Stock Yards Board (June 30)

Ontario Training Corporation

Ontario Waste Management Corporation

Pension Commission of Ontario

Police Complaints Commissioner

Potato Financial Protection Board

Processing-Vegetable Financial Protection Board

Province of Ontario Council for the Arts

Provincial Judges Pension Fund, Provincial Judges Pension Board

Public Trustee of the Province of Ontario

Rent Review Hearings Board

Soldiers' Aid Commission

St. Clair Parkway Commission (December 31)

Superannuation Adjustment Fund

(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY ANOTHER AUDITOR UNDER THE DIRECTION OF THE PROVINCIAL AUDITOR.

Board of Community Mental Health Clinic, Guelph

Clarke Institute of Psychiatry

Niagara Parks Commission (October 31)

Ontario Cancer Institute

Ontario Mental Health Foundation

St. Lawrence Parks Commission

Toronto Area Transit Operating Authority

Workers' Compensation Board (December 31)

NOTES:

1. Parentheses indicate fiscal periods ending on a date other than March 31.

2. Changes during the 1992 fiscal year:
   Newly Established Agencies
   - Interim Gross Revenue Insurance Plan Program Account
   - Interim Waste Authority Ltd.
   - Ontario Aerospace Corporation

   Deletions Due to Change in Designation
   - Accountant of the Supreme Court of Ontario
   - Liquor Licence Board of Ontario

   Terminated Agencies
   - John Graves Simcoe Memorial Foundation
   - Tobacco Producers' Assistance Fund

3. Inactive agencies as at March 31, 1992:
   - North Pickering Development Corporation
   - Ontario Deposit Insurance Corporation
   - Ontario Land Corporation
   - Ontario Pavilion Expo '86
   - Ontario Telephone Development Corporation

EXHIBIT 4:

Crown Controlled Corporations

CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS AND OTHER RELATED DOCUMENTS

Board of Funeral Services

Board of Governors of The Ontario Institute for Studies in Education

Board of Ophthalmic Dispensers

Board of Radiological Technicians

Corporation of the Improvement District of Gauthier

Corporation of the Improvement District of Matachewan

Governing Board of Dental Technicians

Governing Board of Denture Therapists

McMichael Canadian Art Collection

Metropolitan Toronto Convention Centre Corporation

Moosonee Development Area Board

Ontario Board of Examiners in Psychology

Ontario Centre for Resource Machinery Technology

Ontario Cream Producers' Marketing Board

Ontario Energy Corporation

Ontario Historical Studies Series

Ontario Hydro

Ontario Milk Marketing Board

Ontario Mortgage Corporation

Ontario Municipal Employees Retirement Board

Ontario Share and Deposit Insurance Corporation

Ontario Teachers' Pension Plan Board

Ontario Transportation Development Corporation

Ontario Trillium Foundation

Ortech Corporation

Ottawa Congress Centre

Public Service Pension Board

Royal Ontario Museum

Science North

Stadium Corporation of Ontario Limited

Teranet Land Information Services Inc.

Thunder Bay Ski Jumps Limited

Urban Transportation Development Corporation Limited

NOTE: Changes during the 1992 fiscal year:

Newly Established Corporation

- Teranet Land Information Services Inc.

Deletion Due to Change in Designation

- Corporation of the Improvement District of Cameron

EXHIBIT 5:

Status of Previous Annual Report Recommendations

This exhibit provides the status of all suggested corrective action and recommendations which were:

(a) considered unresolved per Exhibit 6 of the 1991 Auditor's Report.

(b) contained in the body of the 1991 Auditor's Report.

RESOLVED AS AT DATE OF PREPARATION OF 1992 PROVINCIAL AUDITOR'S REPORT:

CROSS-MINISTRY AND SPECIAL REVIEWS

Report	Section	Description/Status
1989	2.6	Government overtime payments • In process of implementation.
1990	2.6	Government vehicle fleet administration • Partially implemented.
1991	2.4	Government payments system • Partially implemented.
1991	2.5	Government microcomputers • Partially implemented.
1991	2.6	Government minicomputers • Partially implemented.
1991	2.7	Government mainframe computers • Partially implemented.

MINISTRIES

Community and Social Services

1990	3.2	Ministry facilities for the developmentally handicapped • In process of implementation.
1990	3.3	Agencies for the developmentally handicapped • In process of implementation.
1990	3.4	Homes for the aged • Partially implemented.

Education

1990	3.6	Financial accountability frameworks for grants to school boards • In process of implementation.

Government Services

1990	3.7	Computer services and security, Toronto Development Centre • Partially implemented.

Health

1989	3.9	Land ambulance services • In process of implementation.
1990	3.9	Nursing home services • Partially implemented.
1990	3.10	Access to extended care beds • In process of implementation.
1990	3.11	Home care assistance • Substantially implemented.
1990	3.13	OHIP billings, Provider Services Branch • In process of implementation.
1991	3.6	Hospital operations • In process of implementation.

1991	3.7	Ontario Drug Benefit Plan • In process of implementation.

Intergovernmental Affairs

1990	3.14	Information technology purchases • Substantially implemented.

Solicitor General

1990	3.15	Ontario Provincial Police field operations and quartermaster stores • Partially implemented.

CROWN AGENCIES

Liquor Control Board of Ontario

1991	3.14	Employee expenses • Implemented.

Office of the Assembly

1990	3.17	Travel costs • Not implemented. The Board of Internal Economy reviewed automobile leasing options and mileage rates for the use of personal automobiles and decided no changes were required in the funding of MPPs travel costs.

Ontario Cancer Treatment and Research Foundation

1990	3.18	Overseas recruitment expenditure • The Foundation indicated that no further action was warranted as the overseas recruitment trip was an unusual occurrence. No similar trip has occurred since nor is any foreseen.

TO BE REVIEWED IN SUBSEQUENT YEARS:

The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.

MINISTRIES

Agriculture and Food

1991	3.2	Livestock and dairy inspection

Community and Social Services

1991	3.3	Surrey Place Centre

Environment

1991	3.4	Waste management

Financial Institutions

1991	3.5	Deposit institutions

Industry, Trade and Technology

1991	3.8	Industrial assistance

Labour

1991	3.9	Construction health and safety
1991	3.10	Employment standards

Office Responsible for Women's Issues

1991	3.11	Ontario Women's Directorate

Tourism and Recreation

1991	3.12	Recreation, sports and fitness

Transportation

1991	3.13	Municipal transit

CROWN AGENCIES

Ontario Housing Corporation

1991	3.15	Government-owned housing

Ontario Waste Management Corporation

1991	3.16	Waste treatment facility and other matters

EXHIBIT 6:

Management Board and Treasury Board Orders

AMOUNTS AUTHORIZED AND EXPENDED FOR THE YEAR ENDED MARCH 31, 1992, REPORTED IN ACCORDANCE WITH SECTION 12(2)(E) OF THE *AUDIT ACT*

Ministry	Date of Order	Authorized	Expended
		$	$
Agriculture and Food	Mar. 17, 1992	30,002,200	27,641,934
Attorney General	Dec. 17, 1991	32,585,800	32,585,800
	Jan. 21, 1992	1,001,700	790,611
	Feb. 4, 1992	26,954,600	26,380,905
	Mar. 3, 1992	24,214,400	23,242,230
	Apr. 7, 1992	4,533,300	2,794,967
	Apr. 14, 1992	110,600	110,273
		89,400,400	85,904,786
Cabinet Office	Mar. 24, 1992	350,000	220,970
Citizenship	Mar. 17, 1992	2,457,100	1,964,223
	Apr. 7, 1992	1,347,400	48,956
		3,804,500	2,013,179
Colleges and Universities	Dec. 10, 1991	48,900,000	48,900,000
	Mar. 10, 1992	2,248,300	1,606,874
	Apr. 21, 1992	299,400	299,373
		51,447,700	50,806,247

Ministry	Date of Order	Authorized	Expended
		$	$
Community and Social Services	Mar. 17, 1992	182,400,000	76,657,624
	Apr. 14, 1992	24,178,900	22,877,836
	Apr. 21, 1992	3,778,000	3,617,555
		210,356,900	103,153,015
Consumer and Commercial Relations	Jan. 14, 1992	693,200	644,100
	Feb. 18, 1992	8,201,000	7,496,350
		8,894,200	8,140,450
Correctional Services	Mar. 10, 1992	28,148,000	28,022,109
	Apr. 7, 1992	2,050,000	1,084,925
		30,198,000	29,107,034
Culture and Communications	Apr. 14, 1992	1,458,800	917,934
Education	Feb. 4, 1992	38,600	38,600
	Mar. 3, 1992	14,974,300	14,225,386
	Apr. 14, 1992	610,500	245,868
		15,623,400	14,509,854
Energy	Mar. 31, 1992	150,000	48,518
Environment	Apr. 7, 1992	5,577,300	3,858,478
Financial Institutions	Oct. 29, 1991	6,851,800	6,851,800
	Dec. 17, 1991	5,425,800	3,547,777
	Mar. 10, 1992	1,574,700	1,287,275
		13,852,300	11,686,852
Government Services	Sept. 17, 1991	650,000	641,732
	Jan. 14, 1992	1,944,000	1,944,000
	Feb. 25, 1992	5,772,800	5,586,282
	Apr. 14, 1992	34,684,234	31,329,483
		43,051,034	39,501,497
Health	Apr. 14, 1992	144,430,400	130,361,572
Housing	Apr. 14, 1992	2,633,400	2,391,381

Ministry	Date of Order	Authorized	Expended
		$	$
Industry, Trade and Technology	Mar. 24, 1992	7,225,800	6,158,646
Intergovernmental Affairs	Feb. 18, 1992	86,000	59,092
Labour	Dec. 12, 1991	2,302,900	2,279,152
	Feb. 18, 1992	690,000	663,867
	Feb. 25, 1992	1,067,200	956,208
	Mar. 10, 1992	5,663,800	5,073,191
	Mar. 31, 1992	256,500	59,018
		9,980,400	9,031,436
Office of the Lieutenant Governor	Mar. 31, 1992	24,300	18,943
Management Board of Cabinet	Apr. 7, 1992	200,000	184,109
Municipal Affairs	Apr. 7, 1992	1,351,900	1,220,115
Ontario Native Affairs Secretariat	Jan. 7, 1992	8,044,800	8,044,800
	Feb. 4, 1992	377,000	330,968
	Feb. 11, 1992	218,000	—
	Mar. 17, 1992	223,200	—
		8,863,000	8,375,768
Natural Resources	July 9, 1991	10,000,000	10,000,000
	Aug. 14, 1991	10,000,000	10,000,000
	Sept. 10, 1991	15,000,000	15,000,000
	Sept. 24, 1991	10,000,000	10,000,000
	Nov. 19, 1991	8,000,000	6,336,238
	Mar. 24, 1992	11,360,900	9,779,540
	Apr. 14, 1992	4,966,700	4,788,525
		69,327,600	65,904,303
Northern Development and Mines	Mar. 3, 1992	4,747,100	4,747,100
	Mar. 10, 1992	1,357,800	1,321,276
	Mar. 27, 1992	7,400,000	7,399,710
		13,504,900	13,468,086

Ministry	Date of Order	Authorized	Expended
		$	$
Revenue	Feb. 25, 1992	1,835,600	1,749,649
	Mar. 24, 1992	14,621,500	14,171,976
	Mar. 31, 1992	65,000	58,335
		16,522,100	15,979,960
Solicitor General	Mar. 3, 1992	38,574,200	37,797,479
	Mar. 10, 1992	1,109,100	891,136
		39,683,300	38,688,615
Tourism and Recreation	Sept. 10, 1991	600,000	600,000
	Jan. 28, 1992	2,545,200	2,545,200
	Apr. 14, 1992	1,451,600	1,019,364
		4,596,800	4,164,564
Transportation	Jan. 28, 1992	37,906,500	37,570,517
	Feb. 25, 1992	1,583,800	1,258,128
	Mar. 24, 1992	9,232,100	8,256,392
	Apr. 14, 1992	42,600,000	42,330,575
		91,322,400	89,415,612
Treasury and Economics	Jan. 28, 1992	421,000	421,000
	Mar. 17, 1992	1,103,000	967,024
		1,524,000	1,388,024
Office Responsible for Women's Issues	Apr. 7, 1992	7,100	—
Total Board Orders		**915,450,134**	**764,320,974**